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GAO's Yellow Book Exposure Draft: What Changes are Ahead?

NASACT Webinar
March 1, 2017



GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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Opening Remarks

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 <p>SPEAKER Christie Pugnetti Senior Auditor GAO</p>	 <p>SPEAKER Mary Ann Hardy Senior Auditor GAO</p>	 <p>SPEAKER Rebecca Riklin Senior Auditor GAO</p>

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Session Objective

- Provide an update on key areas of potential revision to be included in the 2017 Yellow Book Exposure Draft

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Yellow Book = "GAGAS"

GAGAS—generally accepted government auditing standards

- Broad statements of auditors' responsibilities
- An overall framework for ensuring that auditors have the competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work

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Required Use of GAGAS

- OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance), effective 2016, requires use for audits of state and local governments and not-for-profits that meet certain criteria
- Policies of federal agencies require use for certain audits of funding recipients

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Preparation of GAGAS

GAGAS results from an extensive deliberative process that includes:

- Public comments
- Input from the Comptroller General's Advisory Council on Government Auditing Standards

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Summary of Key Areas for Potential Revision

- Format and organization of GAGAS
- Auditor preparation of accounting records and financial statements
- 3-party arrangements and professional services in government
- Specialists
- Continuing professional education
- Quality control and peer review
- Application of internal control standards
- Considerations for waste
- Reviews of financial statements

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Format and Organization of GAGAS

- Present chapters in a revised format that differentiates requirements from application guidance
- Reorganize and realign chapters
- Remove or incorporate supplemental guidance from the 2011 appendix

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Auditor Preparation of Accounting Records and Financial Statements

- Services performed by auditors related to preparing accounting records and financial statements, other than those defined as impairments

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3-party Arrangements and Professional Services in Government

- Independence considerations for the auditor when the engaging party differs from the responsible party
- Professional services in government

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Specialists

- Distinction between internal and external specialists
- Independence and competence considerations

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Continuing Professional Education

- Continuing professional education (CPE) on GAGAS topics
- Incorporate elements of the GAGAS guidance on CPE into the standards

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Quality Control and Peer Review

- Expanded discussion of quality control and peer review
- Considerations for audit organizations affiliated with a recognized organization

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Application of Internal Control Standards

- Incorporate revised internal control standards
- Consideration of potential internal control deficiencies when evaluating findings

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Waste

- Discussion of waste in addition to abuse
- Responsibilities if auditors become aware of waste

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Reviews of Financial Statements

- Reviews of financial statements performed by audit organizations

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GAGAS Technical Assistance

Common GAGAS Technical Assistance Questions

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Example 1

Question:

Does an audit of a tribe's 401k plan need to be done in accordance with GAGAS?

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Example 1

- **GAGAS Issue:** Who or what determines whether an audit should be performed under Generally Accepted Government Auditing Standards?
- **GAGAS Reference:** Paragraph 1.06

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Example 2

Question:

When auditing an entity that received a Federal grant under the Uniform Grants Guidance, how should the recipient entity charge indirect costs?

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Example 2

- **GAGAS Issue:** What GAGAS requirements are relevant to specific single audit requirements?
- **GAGAS Reference:** GAGAS requirements generally do not address issues at this detailed level. Instead, the Uniform Grants Guidance addresses more specific questions. Refer to the cognizant or oversight agency contact.

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Example 3

Question:

Is there an independence threat related to an auditor's preparation of financial statements for an audit client?

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Example 3

- **GAGAS Issue:** Are there any independence requirements in GAGAS that prohibit the auditors from preparing the client's financial statements?
- **GAGAS Reference:** 3.34, 3.50 - 3.52, and 3.59

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Example 4

Question:

An audit organization audits a public authority. The Office of the State Comptroller issued a report with findings and the public authority needs to create a corrective action plan. Would helping the audit organization's attest client (the public authority) with the corrective actions create an independence issue?

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Example 4

- **GAGAS Issue:** Would helping the public authority in creating a corrective action plan pose a threat to the auditor's independence necessary to conduct a GAGAS audit?
- **GAGAS Reference:** Paragraphs 3.34, 3.35, 3.36, 3.40, and 3.41

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Example 5

Question:

An auditor's prospective new client, who has never undergone an audit before, requested assistance with audit preparation. Can the auditor advise the client as to what documentation would be needed for review by the auditor?

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Example 5

- **GAGAS Issue:** Would a helping the client in preparing for an audit pose a threat to the auditor's independence necessary to conduct a GAGAS audit?
- **GAGAS Reference:** Paragraphs 3.08, 3.13, 3.34, 3.40, and 3.41

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Example 6

Question:

If an audit organization that conducts performance audits obtains continuous access to the audited entity's databases for purposes such as follow up on corrective actions, what are some GAGAS considerations?

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Example 6

- **GAGAS Issue:** Are there any independence or performance audit field work requirements in GAGAS that prohibit the auditors from obtaining continuous database access?
- **GAGAS Reference:** 3.07, 3.14, 6.36, and 6.47

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Example 7

Question:

An employee of an audit organization was a college intern for 1.5 years and was then employed full time for the last .5 year of the Continuing Professional Education (CPE) reporting cycle. Does the employee's college classwork apply toward the GAGAS CPE requirements?

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Example 7

- **GAGAS Issue:** What types of coursework can be counted toward an auditor's GAGAS CPE requirements?
- **GAGAS Reference:** Paragraph 3.76 and 3.77 and *Guidance on GAGAS Requirements for Continuing Professional Education*, 2005

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Example 8

Question:

Can CPE hours used to fulfill the state board of accountancy's accounting & auditing requirement be used to fulfill the 24-hour GAGAS CPE requirement?

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Example 8

- **GAGAS Issue:** What topics count for the 24-hour GAGAS CPE requirement?
- **GAGAS Reference:** Paragraph 3.76 and 3.77 and *Guidance on GAGAS Requirements for Continuing Professional Education*, 2005: Paragraphs 17, 18, 23 and 24

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Example 9

Question:

What if, due to unusual difficulty or hardship, an entity needs a peer review extension?

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Example 9

- **GAGAS Issue:** What is the process for receiving a peer review extension?
- **GAGAS Reference:** Paragraph 3.97

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Where to Find the Yellow Book

- The Yellow Book is available on GAO's website at: www.gao.gov/yellowbook
- For technical assistance, contact us at: yellowbook@gao.gov or call (202) 512-9535

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Questions and Answers

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Thank You
