

OHIO AUDITOR OF STATE
KEITH FABER



Government Auditing Standards (Yellow Book)

2018 Revision & Updates

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Center for Audit Excellence

Agenda

New Format & Organization

Finding Guidance

Waste & Abuse

Independence

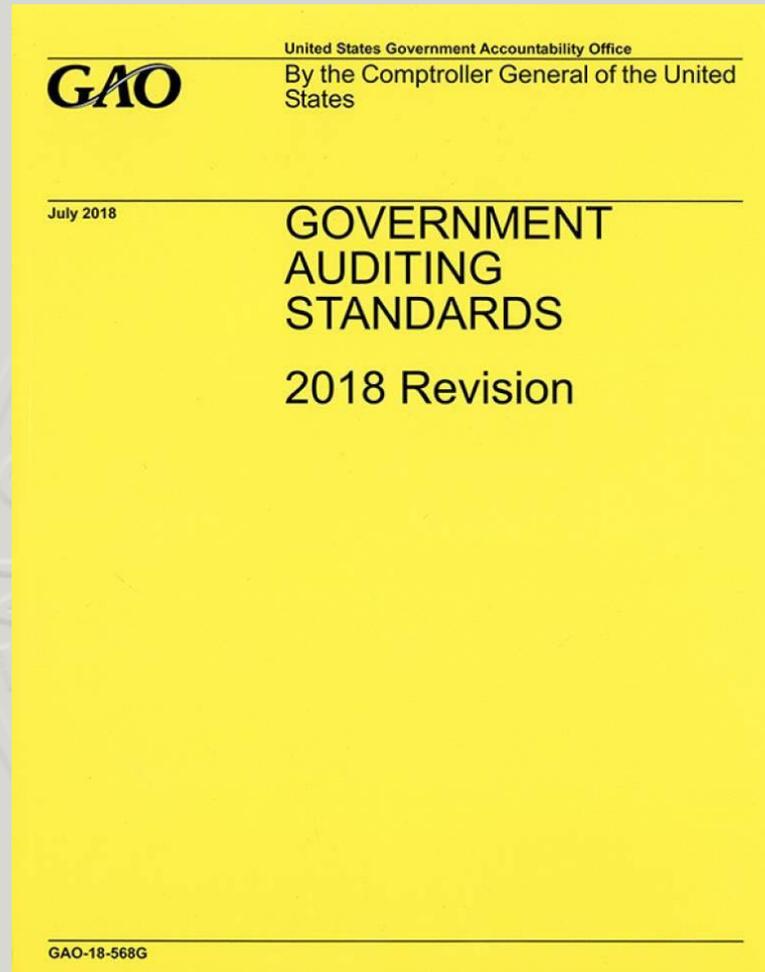
Continuing Professional Education

Peer Review

Performance Audits

GAGAS Alerts & Technical Updates

Yellow Book?.....Why?



What is the Yellow Book?

Also known as:

- Generally Accepted Government Auditing Standards
- GAGAS
- Government Auditing Standards



Published by
the United
States
Government
Accountability
Office (GAO)



Last revision:
2011

2018 YB Effective Dates

For financial audits, attestation engagements, and reviews of financial statements for periods ending on or after
June 30, 2020

For performance audits that began on or after
July 1, 2019

Early implementation was not permitted!

The Yellow Book provides:

Framework for performing high-quality audit work with:

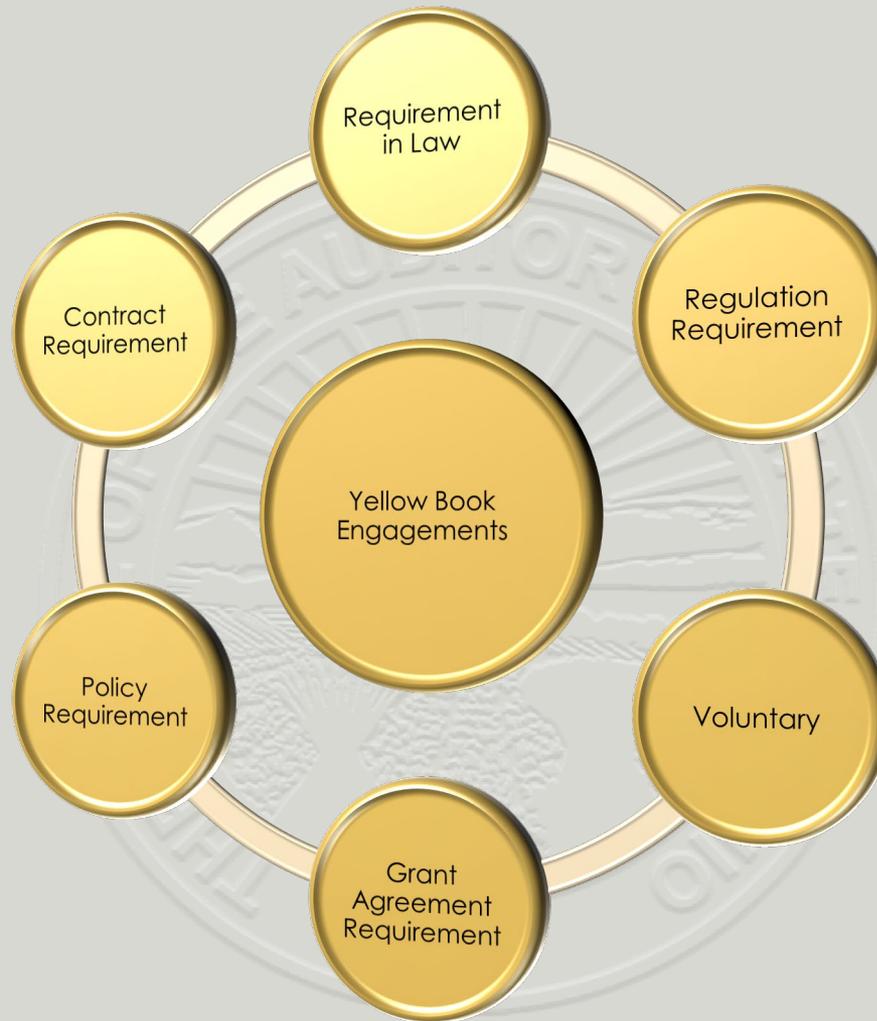
- competence
- integrity
- objectivity, and
- independence

To provide accountability and to help improve government operations and services

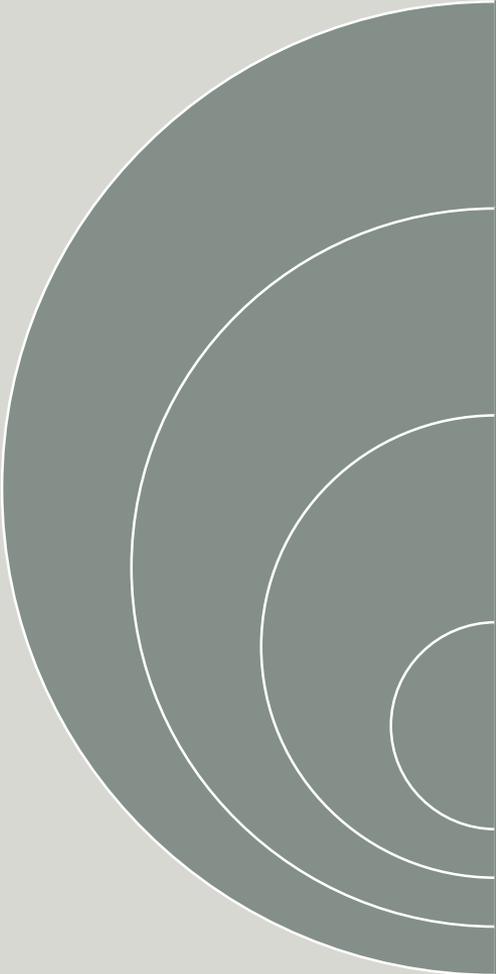
Yellow Book

**Outlines the requirements for audits /
attestation engagements, reports,
professional qualifications for auditors,
and audit organization quality control.**

When to follow Yellow Book?



2018 Yellow Book



Supersedes:

2011 Yellow Book

2005 GAO CPE guidance document

2014 GAO Peer Review Ratings Guidance

2011 Yellow Book Chapters

Chapter 1	Government Auditing; Foundation and Ethical Principles
Chapter 2	Standards for Use and Application of GAGAS
Chapter 3	General Standards
Chapter 4	Standards for Financial Audits
Chapter 5	Standards for Attestation Engagements
Chapter 6	Field Work Standards for Performance Audits
Chapter 7	Reporting Standards for Performance Audits
Appendices	Supplemental Guidance GAGAS Conceptual Framework for Independence Comptroller General's Advisory Counsel

2018 Yellow Book Chapters

Chapter 1	Foundation & Principles for the Use and Application of Government Auditing Standards
Chapter 2	General Requirements for Complying with Government Auditing Standards
Chapter 3	Ethics, Independence, and Professional Judgement
Chapter 4	Competence and Continuing Professional Education
Chapter 5	Quality Control and Peer Review
Chapter 6	Standards for Financial Audits
Chapter 7	Standards for Attestation Engagements and Reviews of Financial Statements
Chapter 8	Fieldwork Standards for Performance Audits
Chapter 9	Reporting Standards for Performance Audits

Must vs. Should vs. May

Unconditional
requirement =
must

- Auditor “must” comply with where relevant

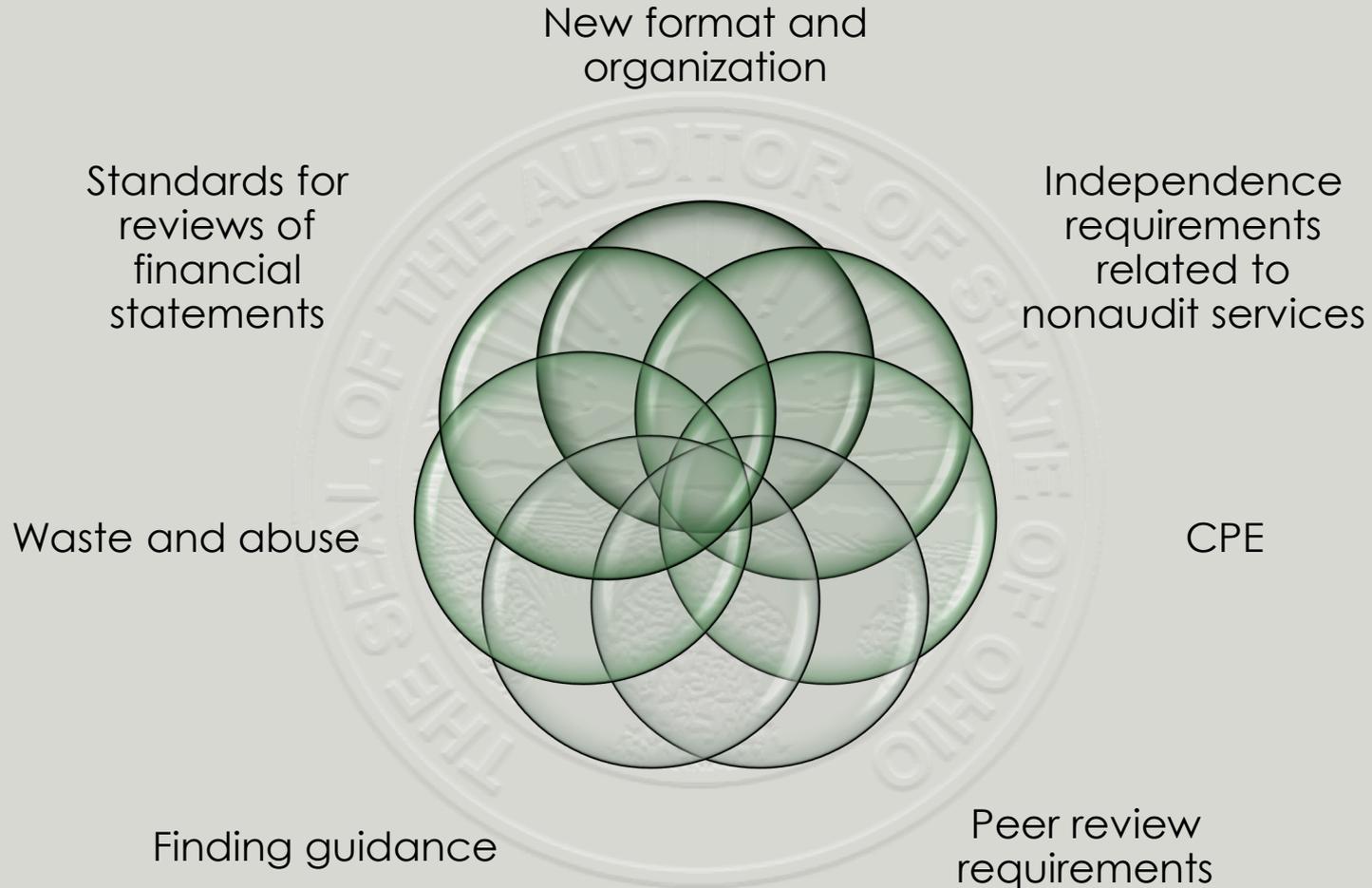
Presumptively
mandatory
requirement =
should

- Auditor must comply with except in rare circumstances
- If depart from, perform alternative procedures and document justification

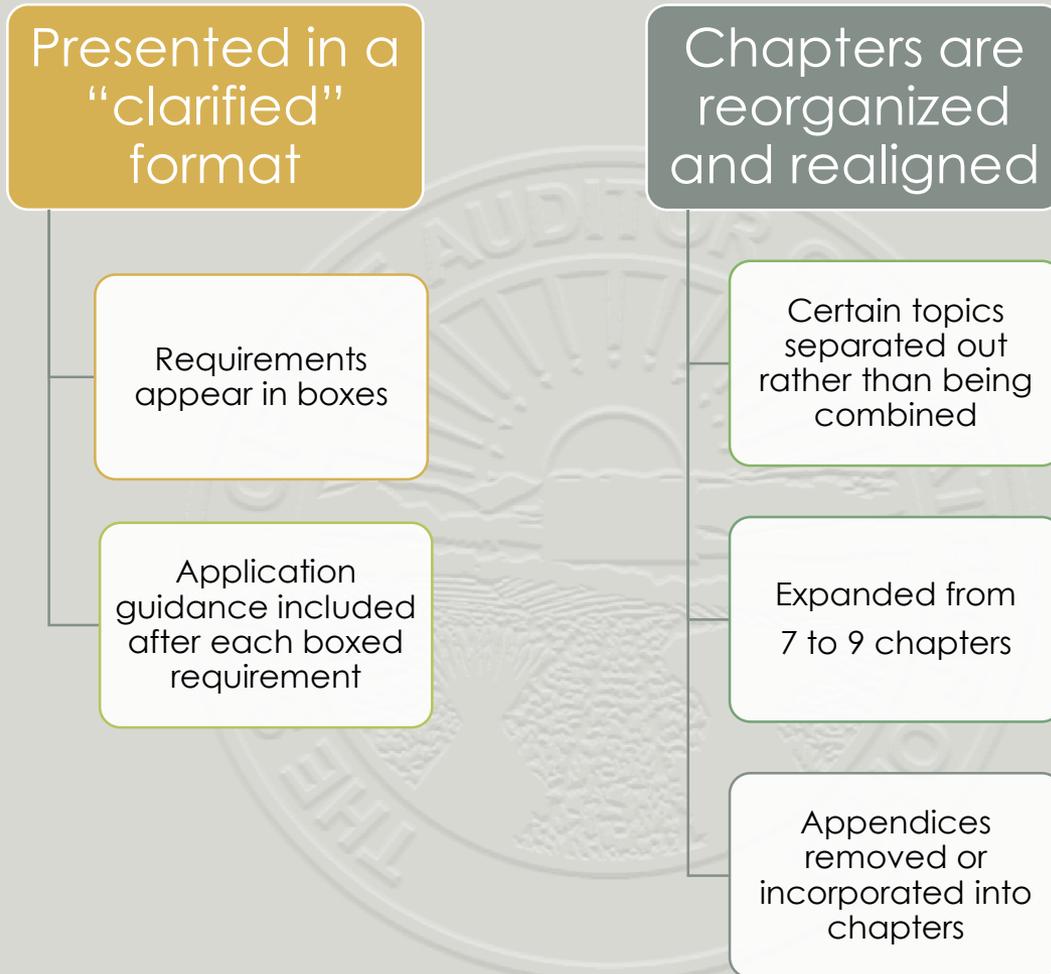
Application
Guidance = may,
might & could

- Provides further explanation of the requirements and guidance for applying them

2018 Key Changes



New Format & Organization



Example “clarified” format

Investigations or Legal Proceedings

Requirement: Investigations or Legal Proceedings

6.12 Auditors should inquire of management of the audited entity whether any investigations or legal proceedings have been initiated or are in process with respect to the period under audit, and should evaluate the effect of initiated or in-process investigations or legal proceedings on the current audit.



Application Guidance: Investigations or Legal Proceedings

6.13 Laws, regulations, or policies may require auditors to communicate indications of certain types of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements to law enforcement or investigatory authorities before performing additional audit procedures.

6.14 Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities or to withdraw from or defer further work on the engagement or a portion of the engagement to avoid interfering with an ongoing investigation or legal proceeding.

Finding Guidance

Required =
Consider
internal
control
deficiencies
when
developing
cause

- **Cause** – a finding element that explains why the reported condition exists
 - Cause is the reason why condition and criteria do not align
 - Cause is often the basis for recommendations
- Applicable to:
 - Financial statement audits,
 - Reviews of financial statements
 - Performance audits

Waste

- 2018 Yellow Book defined waste (6.21)
 - “the act of using or expending resources carelessly, extravagantly, or to no purpose”
- Included in application guidance
- Examples included in 6.22



Abuse



- **Moved to application guidance**

- “behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.”

- Examples included in 6.24.

Waste & Abuse

Auditors are **not** required to detect waste or abuse

Evaluating internal control may also include considering internal control deficiencies that result in waste or abuse

Auditors ***may*** also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.

Auditors may consider whether and how to communicate such matters if they become aware of them. YB ¶6.20

Independence

2018 Yellow Book retained much of the other independence requirements & guidance



Most significant changes relate to nonaudit services that include preparing accounting records and financial statements

Independence

GAO provides a list of specifically prohibited nonaudit services; it does not provide a list of permitted nonaudit services or relationships

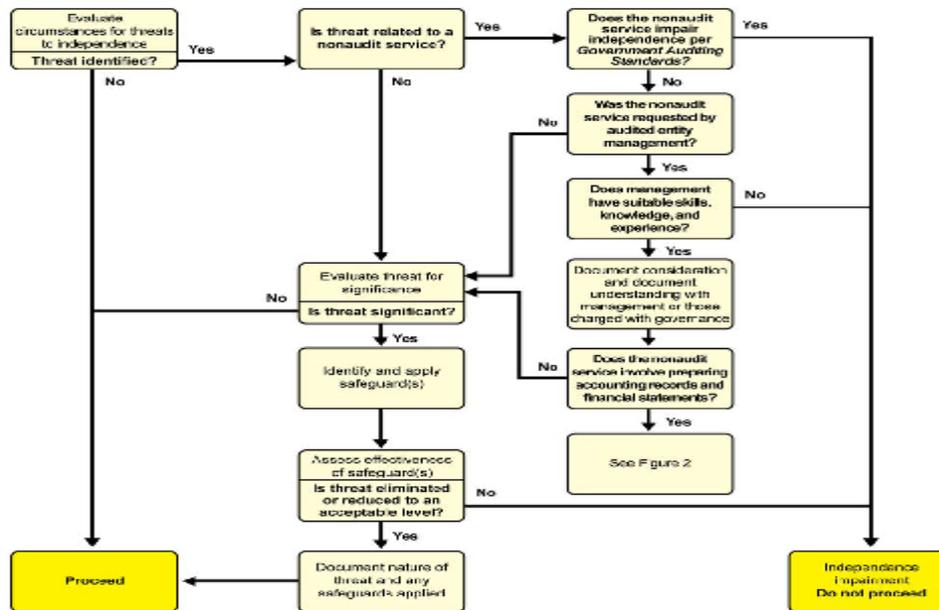
Conceptual framework approach



All independence considerations, and documentation, need to run through this framework

Independence

Figure 1: Generally Accepted Government Auditing Standards Conceptual Framework for Independence



Source: GAO. | GAO-18-568G



Independence



2018
Yellow
Book
indicates
that
nonaudit
services fall
into 3
categories:

Those that automatically impair independence

Those that are significant threats

Those that are threats

Independence

Activities that impair independence ¶3.87

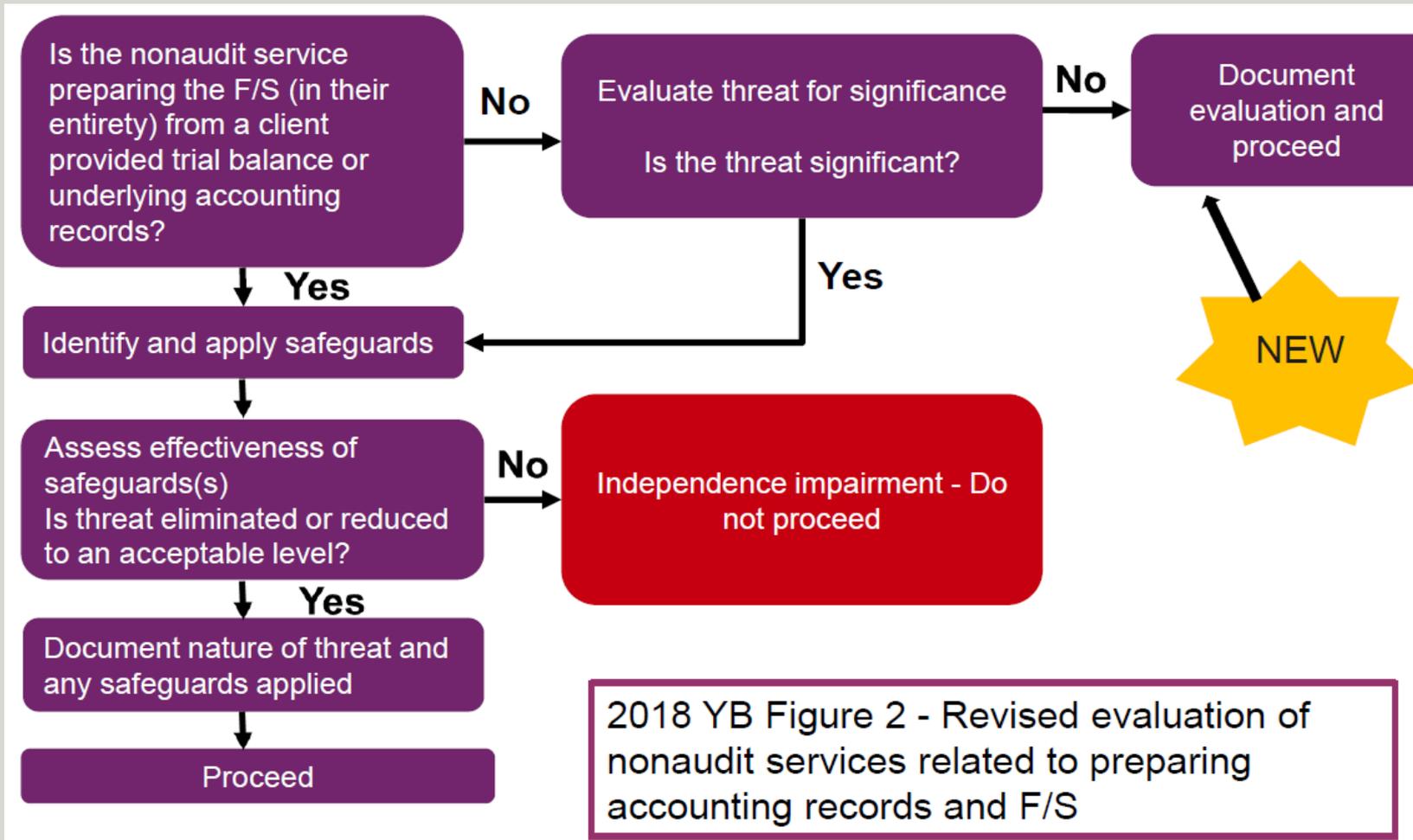
- Determining or changing journal entries, account codes or classifications for transactions, or other accounting records of the entity without obtaining management's approval;
- Authorizing or approving the entity's transactions; and
- Preparing or making changes to source documents without management approval

Preparing accounting records and F/S

Activities that are significant threats

Preparing F/S in their entirety from a client-provided trial balance or underlying accounting records creates **significant threats ¶3.88**

Independence



Independence Consideration Pitfalls

Failure to identify nonaudit services

Failure to identify a nonaudit service as being related to preparing accounting records and F/S

Failure to recognize lack of SKE at audited entity

Failure to recognize when assistance with the implementation of a new standard crosses the line of assuming management responsibilities

Independence Consideration Pitfalls

Failure to consider relevant factors impacting threat significance such as:

Materiality of the subject matter on the audit	Degree of subjectivity involved	Extent of audited entity's involvement in determining significant matters of judgment	Failure to put into place effective safeguards	Failure to appropriately document
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WARNING

Auditors need to be independent during:

- **Any** period of time that falls within the period covered by the F/S or subject matter of the engagement; and
- the period of the professional engagement
 - (i.e.: assisting client in preparing the footnotes related to new accounting standards for FYE financial statements)

Independence

Additional Updates to Independence Guidance:

Skill, Knowledge or Experience
(SKE)

Services provided by
government audit organizations

Independence

Other minor wording changes

2011 YB ¶3.65 said
“...considering any
threats to
independence,”

2018 YB ¶3.114 revised
that section to
“...identifying and
evaluating any threats
to independence,”

Continuing Professional Education

- CPE requirements now included
- Required 80 hours stayed the same
 - 24 Governmental
 - 56 Professional Expertise

Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS, should develop and maintain their professional competence by completing....continuing professional education (CPE)

CPE Hours

Don't all CPE hours count as YB CPEs??

No - not all subject matters qualify for the 24 and 56 hour requirements (YB ¶4.16)

Gov. CPE Hours

Governmental

Statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to:

Specific & unique environment the entity operates, or

The subject matter of the engagement

Gov. CPE Examples

Specialized audit methodologies or analytical techniques

Statistical or non-statistical sampling

Government ethics & independence

Legislative policies & procedures

Topics related to fraud, waste, abuse, or improper payments affecting gov. entities

Compliance with laws and regulations

Performance auditing topics

CPE Hours

Professional Expertise

Subject matter that directly enhance auditors' professional expertise to conduct engagements

Professional Expertise CPE Examples

All governmental cpe topics / subjects

General ethics & independence

Communicating clearly & effectively, both orally & in writing

Managing time & resources

Leadership

Software applications used in conducting engagements

Information technology

Other topics that fall within YB Ch. 4 criteria

COVID-19: GAGAS CPE Alert

Three Exceptions:

Clarification
of Existing
GAGAS CPE
Exemption

Six-month
grace period
for
completing
CPE

Waiver of 20-
Hour Annual
CPE
Requirement

Carry Over
of CPE

Peer Review

Is the Audit Organization
Affiliated with a
Recognized
Organization?

Yes

No

Peer Review

All Audit Organizations must comply with GAGAS Peer Review Requirements for:

Assessment of Peer Review Risk

Peer Review Report Ratings

Availability of Peer Review Report to the Public

Peer Review

Yes - Audit Organization is Affiliated with a Recognized Organization

- Also comply with the recognized organization's peer review requirements

Peer Review

No - Audit Organization is **not** Affiliated with a Recognized Organization

- Comply with additional GAGAS Peer Review Requirements
 - Peer Review Scope
 - Peer Review Intervals
 - Written agreement for Peer Review
 - Peer Review Team
 - Report Content
 - Audit Organization's response to the Peer Review Report

Performance Audits

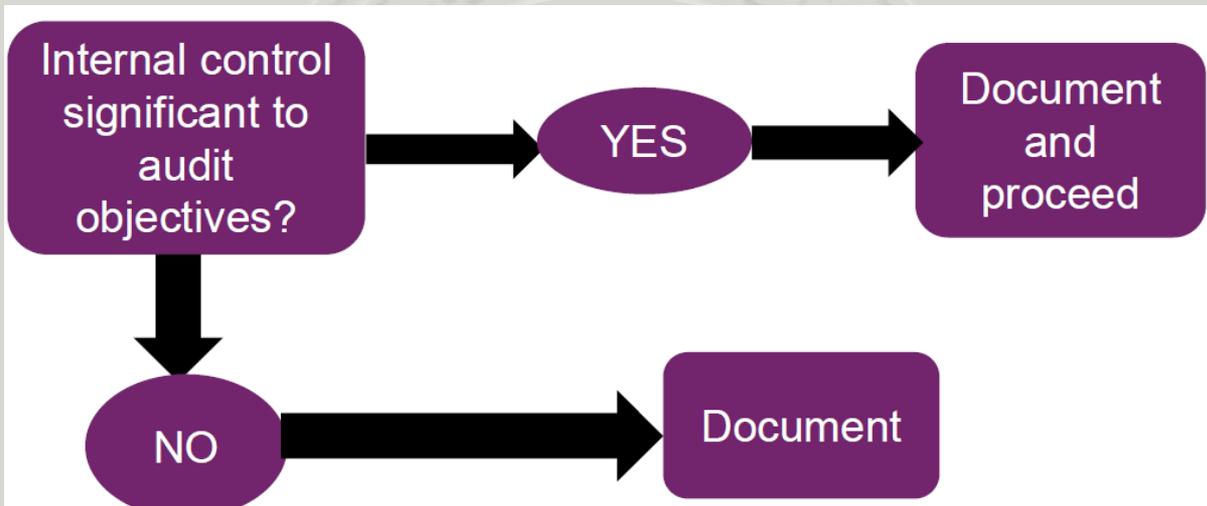
Management assertion
clarification

2018 YB has an explicit statement that management assertions are not required for performance audits

See ¶8.14

Performance Audits

- Internal control requirement (¶8.39)
 - Auditors should document the significance of internal control to performance objectives



Reassess, as applicable, for new or refined objectives

Performance Audits

If internal control is significant to performance audit objectives:

Obtain an understanding of internal control that is significant to the audit objectives

Assess and document the assessment of internal control to the extent necessary to address the audit objectives

Evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives

Consider internal control deficiencies when developing the cause element of findings

Identify in the audit report which internal control components and principles are significant

Other YB Updates

The term “audit” was replaced with “engagement”

The term “performance” was replaced with “conducting”

Qualifications and competency of specialists ¶ 4.12

Auditor, engagement team and specialist defined ¶1.27

Types of GAGAS Users ¶1.12

Examples of GAGAS Users

- a.** Contract auditors: audit organizations that specialize in conducting engagements pertaining to government acquisitions and contract administration
- b.** Certified public accounting firms: public accounting organizations in the private sector that provide audit, attestation, or review services under contract to government entities or recipients of government funds
- c.** Federal inspectors general: government audit organizations within federal agencies that conduct engagements and investigations relating to the programs and operations of their agencies and issue reports both to agency management and to third parties external to the audited entity
- d.** Federal agency internal auditors: internal government audit organizations associated with federal agencies that conduct engagements and investigations relating to the programs and operations of their agencies
- e.** Municipal auditors: elected or appointed officials in government audit organizations in the United States at the city, county, and other local government levels
- f.** State auditors: elected or appointed officials in audit organizations in the governments of the 50 states, the District of Columbia, and the U.S. territories
- g.** Supreme audit institutions: national government audit organizations, in the United States or elsewhere, typically headed by a comptroller general or auditor general

GLOSSARY

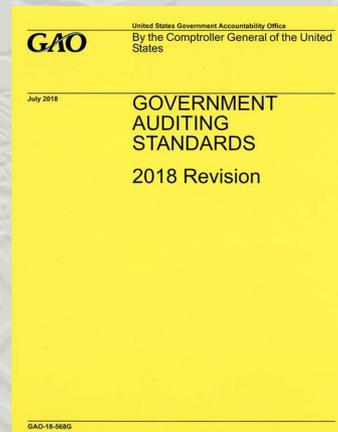
Glossary

The following terms are provided to assist in clarifying the *Government Auditing Standards*. The most relevant paragraph numbers are provided for reference. When terminology differs from that used at an organization subject to generally accepted government auditing standards (GAGAS), auditors use professional judgment to determine if there is an equivalent term.

Abuse: Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. (paragraphs 6.23, 7.25, and 8.122)

Where do I find the Yellow Book?

- <https://www.gao.gov/products/GAO-18-568G>



- Issued August 2020 by the Government Accountability Office (GAO)
- Includes additional considerations for auditors when completing GAGAS audits in our current environment
- Outlines certain areas that may need increased attention during audits due to the circumstances of the COVID-19 pandemic, such as identifying fraud risks

2021 Technical Updates

Issued April 2021

Made limited technical updates to the 2018 Revision of the Yellow Book

- Updates are detailed on pages i through ii of the updated Yellow Book.
- Included equitable in the discussion of providing service to the public
- Included updates to a few paragraphs regarding Performance Audits.

Performance Audits Discussion Paper

Issued April 2021

- Provides illustrative examples for assessing effectiveness, efficiency, economy, ethics and **equity** in performance audits.

Questions?



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