


UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Yellow Book Update: 2010 Exposure Draft

**NASBA 103rd
Annual Meeting**

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San Antonio, TX
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1

2011 Yellow Book Projected Dates

August 23rd 2010:

- Issued Exposure Draft of 2011 Revision of GAGAS

November 22nd 2010:

- Comments due on Exposure Draft of 2011 Revision

March - April 2011:

- Issue 2011 Revision of GAGAS
- Effective date to be determined

Significant Changes

Realigned Chapters 1 and 2

- Chapter 1 now includes the foundation and ethical principles of government auditing
- Chapter 2 contains the overall discussion on the use and application of GAGAS

Chapter 3

- Revised independence standard

3

Significant Changes

Chapter 4

- The former Chapters 4 and 5 have been combined into one chapter on financial audits

Chapter 5

- Clarified proper use of attest engagements and added language on reporting deficiencies in internal control

Chapters 6 and 7

- Clarified obligation for reporting fraud and added a requirement to report views of responsible officials concerning the findings, recommendations, and planned corrective actions

4

Chapter 2 – Standards for the Use and Application of GAGAS

- Recognizes the terms that define professional requirements, which are consistent with those used in the AICPA's Statements on Auditing Standards
- Recognizes the longstanding GAGAS financial audit requirements to report on deficiencies in internal control; and on fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse

5

Chapter 2 – Standards for the Use and Application of GAGAS

Clarified citing compliance with GAGAS

- Determination of appropriate GAGAS compliance statement is a matter of professional judgment
- Departures from presumptively mandatory requirements
- Using GAGAS with other standards

6

Chapter 3 – General Standards: Independence

GAGAS is adopting a conceptual framework approach to independence determinations

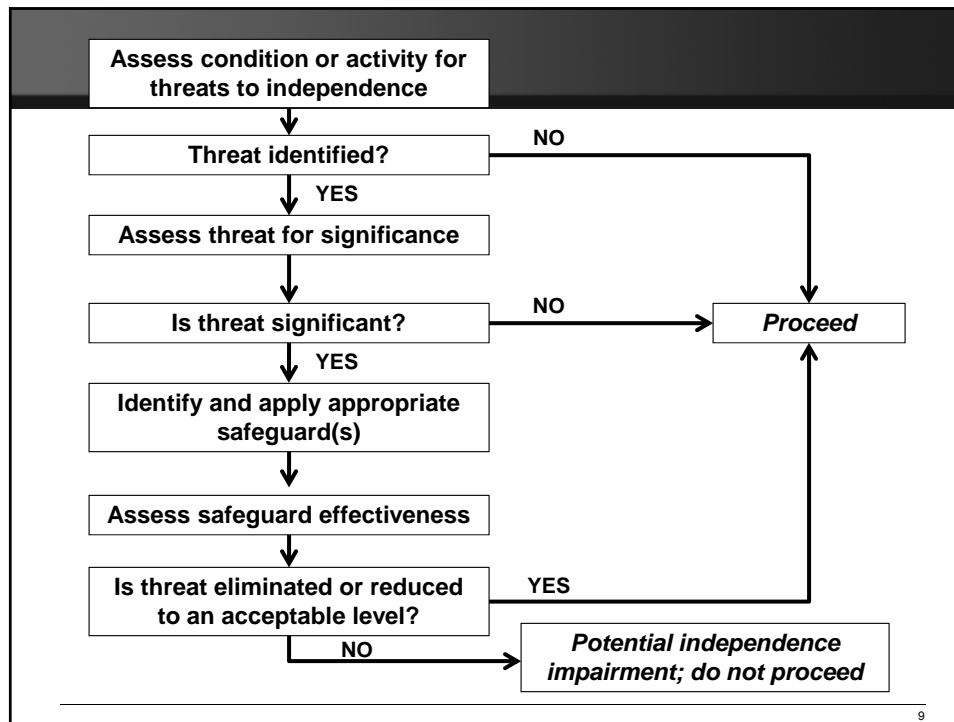
- Allows auditors to assess independence in light of the circumstances that often apply to these determinations
- Approach replaces consideration of the three previous categories of independence – personal, external, and organizational
- The framework includes definitions of both independence of mind and independence in appearance

7

Chapter 3 – Revising Independence

- New framework combines rules (prohibitions) with a conceptual framework.
 - GAGAS framework will provide consistent results when compared with AICPA and IFAC
 - GAGAS framework will address unique governmental structural issues
- Certain prohibitions will remain
 - Generally consistent with AICPA Rule 101
- Beyond a prohibition
 - Apply the conceptual framework

8



Chapter 3 - Considerations for Financial Statement and Accounting Records Assistance

- Nonaudit Services – Financial Statement and Accounting Records Assistance
 - Should follow the conceptual framework
 - Be aware of existing AICPA guidance
- Certain activities in preparing accounting records and financial statements
 - Audit entity managers overseeing the nonaudit service must possess skill, knowledge, and experience to evaluate the adequacy and results of the services performed
 - Otherwise no safeguard could reduce the threat to an acceptable level

Chapter 3 – General Standards: Competence

Continuing professional education:
Highlighted the distinction between internal and external specialists

- External specialists are not required to meet GAGAS CPE requirements, but should be qualified and maintain professional competence
- Internal specialists performing GAGAS work should comply with CPE requirements.
 - Training in areas of specialization counts towards the required 24 hours of CPE that relate to their area of expertise or government auditing

11

Chapter 3 – General Standards: Quality Control and Assurance

Harmonize Quality Control with AICPA standards

- Communicate deficiencies noted during the monitoring process
- Make recommendations for appropriate remedial action

12

Chapter 4 - Financial Audits GAGAS Requirements Beyond AICPA

Clearly identified the additional GAGAS requirements beyond the AICPA.

The additional requirements relate to:

- auditor communication
- previous audits and attestation engagements
- fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse
- developing elements of a finding
- audit documentation

13

Chapter 4 - Financial Audits Removal of Duplication with AICPA

Referenced the AICPA standards when applicable, allowing removal of duplication between GAGAS and AICPA standards in the areas of:

- Restatements
- Definitions of internal control deficiencies
- Communication of significant matters
- Consideration of fraud and illegal acts

14

Chapter 4 - Financial Audits AICPA Standards: Special Considerations for Government Audits

Highlighted considerations for applying certain AICPA standards in a GAGAS financial audit

- Materiality
 - It may be appropriate to use a lower materiality level in a governmental environment
- Early communication of control deficiencies in a GAGAS financial audit
 - Early communication may be important due to significance and the urgency of corrective action
 - May communicate orally to management and those charged with governance so timely remedial action can be taken to minimize risk of material misstatement

15

Chapter 4 - Financial Audits: Deleted Requirements

Deleted GAGAS requirements that were adequately covered by AICPA or elsewhere in GAGAS:

- Document terminated engagements
- Develop policies to address requests by outside parties to obtain access to audit documentation

16

Chapter 5 - Attestation Engagements

Realigned the chapter to emphasize the three levels of attestation engagements, and introduced separate sections for each type of attestation engagement

For each level of service, added language on

- Additional GAGAS requirements on citing compliance with GAGAS
- The importance of the required elements of AICPA reporting under each level of attestation engagements
- Establishing an understanding with the entity regarding the services to be performed

17

Chapter 5 - Attestation Engagements Clarifications on Reporting Deficiencies

For examination engagements, added language on reporting deficiencies in internal control

- Auditors should include in the examination report all deficiencies, even those communicated early, that are considered significant deficiencies or material weaknesses
- Deficiencies remediated before the examination report is issued should be reported, along with notification of the remediation

18

Chapter 5 - Attestation Engagements AICPA Standards: Special Considerations for Government Engagements

For examination engagements, highlighted considerations for applying certain AICPA standards in a GAGAS attestation engagement (consistent with Financial Audits)

- Materiality
- Early communication of deficiencies

19

Chapter 5 - Attestation Engagements Deleted Requirements

Deleted GAGAS requirements that were adequately covered by AICPA or elsewhere in GAGAS

- Document terminated engagements
- Develop policies to address requests by outside parties to obtain access to audit documentation

20

Chapters 6 and 7 Performance Audits: Minor Revisions

Modified the reporting requirements

- Professional judgment is required for reporting noncompliance with provisions of laws and regulations, contracts and grants, and abuse
- The fraud reporting requirement is now limited to occurrences that are significant within the context of the audit
- Added a requirement to obtain and report the views of responsible officials
- Deleted the requirement related to policies to obtain access to audit documentation

21

GAO's Accountability & Standards Team

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We also get assistance from:

- Bob Dacey, GAO Chief Accountant
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22

Where to Find the Yellow Book

- The Yellow Book is available on GAO's website at:
www.gao.gov/govaud/ybk01.htm
- For technical assistance, contact us at
yellowbook@gao.gov