
The July 2007 Yellow Book— What You Need to Know

Conference name

Date

GAO speaker

Session Objectives

- Explain GAO's efforts to modernize and transform the accountability profession
- Explain the process used to issue the July 2007 Yellow Book
- Highlight major revisions in the July 2007 revision of the Yellow Book
- Discuss the reasons for the changes and what these changes will mean for government auditors
- Discuss effective dates

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The presentation covers the major revisions of the July 2007 revision—and the major points that you will need to study and consider

- However, there are more changes than the ones presented in this seminar
- List of major changes is posted on the YB Web page --Suggest looking at this listing and read the YB text that is referenced
- Briefly touch on technical changes from the January 2007 revision that were made in the July 2007 revision
 - Will need to review the listing of technical changes in the July 2007 revision that GAO has posted to the Yellow Book Web page
- Effective dates

And most important, we will have time to answer your questions

GAO's Work to Modernize Auditing Standards

Auditing Standards

- Creating the U.S. Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB)
 - Promulgating and updating *Government Auditing Standards*
 - Promoting the modernization of auditing standards and approaches by working cooperatively with other groups and providing technical assistance and policy input (e.g., PCAOB, AICPA, IAASB, INTOSAI, U.S. Intergovernmental Audit Forums)
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GAO's Goals for Establishing Government Auditing Standards

- Develop high quality *Government Auditing Standards* that are well understood, highly regarded, widely used, and serve as a model for other environments such as the private sector and other governments around the world
 - Provide leadership in modernizing and transforming the accountability profession in the public and private sectors
 - Encourage the development of consistent, core auditing standards for both the public and private sectors
 - Provide a foundation for the accountability profession that is effective, ethical, and prepared for the challenges of the 21st century
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***Government Auditing Standards
July 2007 Revision***

July 2007 Yellow Book Development of Issues

- Identified need for revising Yellow Book
 - Based on staff identification of issues
 - Activities of AICPA, PCAOB, and other standard setters in Fall 2005
- 3 Advisory Council meetings
- Frequent requests for feedback based on staff drafts
- June 2006 ED

Process for Analyzing Comments

- Comments received
 - 118 commenters on overall Exposure Draft
 - 38 commenters on re-exposed section on quality control and peer review
- Systematic review process to analyze every comment
 - All comments entered into an Access database
 - Collaborative team review of comments

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Follow due process—take seriously every comment

Systematic process—each comment, analyze, enter into an Access database, collaborative—not just one person making decisions

Many constructive and helpful comments

July 2007 Revision

- July 2007 revision supersedes the 2003 revision
- Issued revision late January 2007 that was complete except for quality control and peer review sections
- At same time issued exposure draft requesting comments on redrafted sections on quality control and peer review
- The complete, 2007 revision is now available
 - Finalize quality control and peer review sections
 - Some technical changes from the January 2007 revision to address posed questions and for consistency regarding the use of terms to define auditor requirements
 - A listing of technical changes from the January 2007 revision is posted to the Yellow Book Web page

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2007 replaces the 2003 revision—Issued July 2007—Ordering information available on web site

- Auditors can now place orders with the Government Printing Office (not GAO!) for the printed FINAL 2007 Yellow Book at <http://bookstore.gpo.gov/collections/yellow-book.jsp>
- \$12.00 per hard copy

Issued January 31; 95% complete—Not available in hard copy—Included all changes except quality control and peer review which we issued as an ED on January 31 (at same time as the January 2007 YB)

Will continue to be available on GAO's Web Page (along with guidance material that GAO issues)

Technical Changes in the July 2007 Revision

- Changes are categorized as
 - Clarification of requirements
 - Consistency in use of clarity conventions
 - Consistency among chapters and references
 - Streamlining and clarifying the text
 - Correction of typographical errors

This listing contains changes from the January 2007 Revision that were made in the July 2007 Revision of *Government Auditing Standards*. The majority of these revisions were made to address questions that have been posed since the revision was posted and for consistency regarding the use of “must” and “should” to define auditor requirements. The remaining changes were made for streamlining, consistency among chapters, or to correct typographical errors.

Chapter 1: Use and Applicability of GAGAS

- Reinforced the key role of auditing in maintaining accountability and improving government operations
- Clarified the standards through standardized language to define the auditors' level of responsibility and distinguish between requirements and additional guidance.
- Added guidance on citing compliance with GAGAS in the Audit Report
- Clarified and expanded the standards to recognize other sets of standards that can be used in conjunction with GAGAS
- Retained the same types of government audits and attestation engagements but updated and expanded the definitions and descriptions of performance audits and attestation engagements

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Types of audits– same 3 types – Financial, Attestation and Performance—But clarified and revised the description of the types of audits and included additional examples of the types of attestation engagements and performance audits

- Updated definition of PA based on what doing in chapter 7 – more discussion in slides on chapter 7

Chapter 1: Use of terminology

Standardized language to define the auditor requirements

- **Consistent with SAS No. 102:**
 - **Must and is required** indicate an unconditional requirement
 - **Should** indicates a presumptively mandatory requirement
 - Text not using the above conventions is considered explanatory material

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- SAS 102
 - Also Other Std setters– IAASB, PCAOB
- Easily translatable, current YB in 80 languages
- Tough area that all std setters will continue to address into the future
- Must/should tool – to be issued soon

Chapter 1: Citing Compliance with GAGAS

Citing GAGAS in auditors' report

- **Unmodified GAGAS compliance statement** – Audit was performed in accordance with GAGAS

- **Modified GAGAS compliance statement** –
 1. Audit was performed in accordance with GAGAS, except for specific applicable standards that were not followed, or
 2. Auditor was unable to and did not perform the audit in accordance with GAGAS

- This is happening in practice
- Objective is to promote consistency in practice especially in light of the clarity standard (shoulds etc. now throughout the Yellow Book)
- Added footnote reference to chapter 3 for clarification of the applicability of peer review and quality assurance requirements in assessing compliance with GAGAS.

Chapter 1: GAGAS and Other Standards

Recognizing other sets of professional standards

- AICPA field work and reporting standards are incorporated by reference for financial statement audits
- PCAOB and IAASB standards can be used in conjunction with GAGAS for financial statement audits
- IIA standards can be used in conjunction with GAGAS for performance audits

AICPA fieldwork and reporting standards continue to serve as foundation for supplemental YB standards—for financial audits and attestation engagements YB has its own general standards—and this has continued)

Chapter 2: Ethical Principles in Government Auditing

Heightened emphasis on ethical principles

“Conducting audit work in accordance with ethical principles is a matter of personal and organizational responsibility. Ethical principles apply in preserving auditor independence, taking on only work that the auditor is competent to perform, performing high-quality work, and following the applicable standards cited in the audit report.”

Except from paragraph 2.03

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- Wanted to add highlighted version of ethics—previously buried in chapter 1 (introduction)
- New chapter – important info – segregated and emphasized
 - Dual responsibility – audit orgs and auditors
- Fundamental principles rather than specific requirements
- Serve as a foundation for all work under the standards
 - Clear in chapter why not must/ should
 - Ethics are a framework of the application of other standards

Chapter 2: Ethical Principles

Five principles:

- Public interest
- Integrity
- Objectivity
- Proper use of government information, resources, and position
- Professional behavior

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Public interest – “collective well-being” of the community of people and entities the auditors serve

Integrity—includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, nonideological with regard to the audited entities and users of the auditors’ reports

- Also includes being honest, candid, and constructive

Objectivity—being independent in fact and appearance when providing audit and attestation services, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest

Proper use of Government Information, resources, and position— not inappropriately for the auditors’ personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization—Includes proper handling of sensitive or classified information or resources

Professional behavior— Compliance with laws and regulations and avoidance of any conduct that might bring discredit to the auditors’ work. Also putting forth an honest effort in performance of their duties and services in accordance with relevant technical and professional standards.

Chapter 3: General Standards

- Clarified and streamlined the discussion of the nonaudit services and their impact on auditor independence
- Stressed the critical role of professional judgment in complying with GAGAS
- Expanded discussion of competence to emphasize its importance and relate it to key steps in performing an audit and reporting on the auditors' conclusions
- Updated CPE requirements to incorporate April 2005 changes
- Enhanced and clarified the requirements for an audit organization's system of quality control by specifying the elements of quality that an organization's policies and procedures collectively address
- Added a requirement that external audit organizations make their most recent peer review report publicly available

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Professional judgment—stressed the importance of this in ALL aspects of complying with GAGAS
Specifically,

1. expanded the discussion in the interrelationship between professional judgment and competence,
2. Added idea that professional judgment is important to determining the required level of understanding the audit subject matter and assess the risks that the subject matter may contain a significant inaccuracy or could be misinterpreted
3. Linking professional judgment to determining the sufficiency and appropriateness of evidence to support the findings and conclusions

Competence—added idea that competence is a blending of education and experience and the commitment to life-long learning

- Added back language from the 2003 YB to clearly indicate licensing requirements. Language was dropped in January 2007 revision for streamlining purposes but added back due to confusion caused by deleting

Chapter 3: General Standards Non-Audit Services

- Moved nonaudit services from “personal impairments” to “organizational impairments”
- Created three distinct categories of nonaudit services, and consolidated and streamlined the examples previously interspersed throughout the independence section:
 - Nonaudit services that do not impair independence
 - Nonaudit services that would not impair independence if supplemental safeguards are complied with
 - Nonaudit services that do impair independence

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1. Nonaudit service that do not impair independence—”old” para. 3.15—technical advice, training, serving on TF as an advisory
2. Nonaudit service w/safeguards—”old” paragraph 3.18—items such as valuation or human resources services—Did clarify payroll but basically same list as in the 2003 YB
3. Nonaudit services that do impair independence—basic accounting records, posting transactions, etc.

NOTE: GAO’s Q & A guidance (July 2002) is still applicable—Including the question 46 about drafting the financial statements—But GAO’s Yellow Book team plans to revise this document

Government auditors—See appendix A3.02 for nonaudit services that are frequently provided by these type of auditors.—example—assistance and technical expertise to develop questions for use at a hearing or oversight assistance in reviewing budget assistance.

Audit organizations that provide nonaudit services must evaluate whether providing the service creates an independence impairment in fact or appearance with respect to the entities they audit

Chapter 3: General Standards Independence

- Streamlined requirements for auditors regarding independence when using the work of a specialist
- Added that an externally imposed restriction on access to records, government officials, or other individuals needed to conduct the audit may impair external independence
- Added steps that audit organizations should take if an impairment to independence is identified after the audit report is issued

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For specialists, dropped requirement for auditors to provide specialist with GAGAS independence requirements and obtaining representations from the specialist regarding the specialists' independence from the activity or program under audit.

•But retained that auditors should

- Assess the specialist's ability to perform the work and report results impartially as it relates to their relationship with the program or entity under audit
- If the specialist has an impairment to independence, auditors should not use the work of that specialist

If an impairment is discovered after the report is issued, the audit organization should:

- Assess the impact on the audit
- If the audit organization concludes that it did not comply with GAGAS, it should
 - Determine impact on the auditor's report
 - Notify the entity's management, those charged with governance, the requestor, or regulatory agencies that have jurisdiction over the audited entity AND persons known to be using the audit report about the independence impairment and the impact on the audit
 - Notifications should be in writing

Chapter 3: General Standards

Continuing Professional Education

- Incorporated the revised CPE requirements that were issued in April 2005 (GAO-05-568G) Under these requirements
 - All auditors should complete every 2 years at least 24 hours of CPE that relates to GAGAS
 - Auditors involved in planning, directing, or reporting on GAGAS assignments and all auditors who charge more than 20 percent or more of their time annually to GAGAS assignments, also should obtain at least an additional 56 hours of CPE that enhances the auditors' professional proficiency to conduct audits or attestation engagements
 - Clarified that auditors still are required to obtain 20 hours of CPE each year of a full 2-year CPE period
- Clarified CPE requirements to include internal specialists who are part of the audit organization and part of the team

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Recognized partial exemption from CPE requirements—EVERONE working on the YB audit needs to meet the 24 hour requirement (government auditing, the government environment, or specific or unique environment in which the audited entity operates)

Those responsible for planning, directing or reporting or spend 20 percent of their time annually doing YB work need to also get an additional 56 hours of CPE. If spend less than 20 % annually only HAVE to get the 24 hours and are exempt from the remaining 56 hours

For those planning, directing, or reporting or spend 20% of time annually, an additional 56 hours (for a total of 80 hours every two years)—broader what qualifies—NOT just A&A courses—also leadership, writing, courses on computer applications, etc.

- This was issued by GAO in April 2005 in a guidance document (GAO-05-586G)
- Still a requirement to have 20 hours of CPE in each year

If an internal specialist (part of the audit organization) and perform as a team member, they also need to comply with GAGAS including the CPE requirements

Chapter 3: General Standards

Audit Quality Control and Assurance

- Clarified that an audit organization's
 - noncompliance with peer review results in a modified GAGAS statement
 - noncompliance with the requirements for a system of quality control does not impact the GAGAS statement but is monitored through peer review
 - system of quality control also provides reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements
- Requirements for system of quality control are consistent with the AICPA proposed statement on Quality Control Standards except that the GAGAS requirements state that reviews of the work and the report that are normally part of supervision are not monitoring controls when used alone

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• Since the audit organization's compliance with the requirements for a system of quality control are tested and reported on as part of the peer review process, it would not impact the GAGAS compliance statement

• While reviews of the work and report that are performed as part of supervision are not monitoring controls when used alone, these pre-issuance reviews may be used as part of the required annual analysis and summary of its monitoring procedures

Chapter 3: General Standards

Audit Quality Control and Assurance

- Added a requirement that the quality control policies and procedures collectively address
 - Leadership responsibilities within the audit organization
 - Independence, legal, and ethical requirements
 - Initiation, acceptance, and continuance of audit and attestation engagements
 - Human resources
 - Audit and attestation engagement performance, documentation, and reporting
 - Monitoring of quality

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Leadership responsibilities: Designate responsibility for quality of GAGAS audits and communication of policies and procedures related to quality

Independence, legal, and ethical requirements: Policies and procedures designed to provide reasonable assurance that the audit organization, and its personnel maintained independence, and comply with applicable legal and ethical requirements

Initiation, acceptance, and continuance: Policies and procedures designed to provide reasonable assurance that the audit organization will undertake audit engagements only if it can comply with professional standards and ethical principles and is acting within the legal mandate or authority of the audit organization

Human resources: Policies and procedures designed to provide reasonable assurance that it has personnel with capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements

Engagement performance, documentation and reporting: Policies and procedures designed to provide reasonable assurance that engagements are performed and reports are issued in accordance with professional standards and legal and regulatory requirements

Monitoring of quality: an ongoing, periodic assessment of work completed designed to provide reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice

Chapter 3: General Standards

Audit Quality Control and Assurance

- Added requirements for
 - Audit organizations to analyze and summarize the results of monitoring procedures at least annually
 - Include identification of any systemic issues needing improvement
 - Include recommendations for corrective action

Chapter 3: General Standards

Audit Quality Control and Assurance

- External audit organizations to make peer review reports publicly available
 - Does not include letter of comment
 - Can be done by posting the peer review report on an external Web site or to a publicly available file designed for public transparency of peer review results
- Internal audit organizations to provide a copy of the external peer review report to those charged with governance
- Government audit organizations should also communicate the overall results and the availability of their external peer review reports to appropriate oversight bodies

Example of public file—GAQC file on AICPA site

Chapter 3: General Standards

Audit Quality Control and Assurance

- Those audit organizations seeking to enter into a contract to perform a GAGAS audit or attestation engagement should provide the following to the party contracting for such services
 - The audit organization's most recent peer review report and any letter of comment
 - Any subsequent peer review reports and letters of comment received during the period of the contract
 - Auditors who are using another audit organization's work should request
 - The audit organization's latest peer review report
 - Any letter of comment
-

First same as the 2003 YB

Chapter 3: General Standards

Audit Quality Control and Assurance

- Added guidance to assist auditors and audit organizations in establishing policies and procedures in its system of quality control to address
 - Audit and attestation engagement performance, documentation, and reporting
 - Monitoring of quality
 - Added guidance on how to achieve the transparency requirement
 - Added guidance for audit organizations to include a description of the peer review process and how it applies to its organization
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Appendix A 3.04 and A3.05

All Types of GAGAS Audits and Attestation Engagements

- Defined those charged with governance
 - Added a requirement for controls over electronically maintained audit documentation
 - Clarified and streamlined
 - Developing elements of a finding
 - Reporting confidential or sensitive information
 - Reporting views of responsible officials
 - Issuing and distributing reports
-

All Types of GAGAS Audits

The Role of Those Charged with Governance

- Have the duty to oversee the strategic direction and obligations related to the accountability of the entity
- Because it may be unclear who is charged with governance functions, auditors evaluate organizational structure for directing and controlling operations to achieve the entity's objectives
- Evaluation includes
 - How the entity delegates authority
 - How the entity establishes accountability for management personnel
- If not clear who those charged with governance are, the auditor should
 - Document the process followed
 - Document conclusions reached for the appropriate individuals to receive the auditors' communications

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Conformed to SAS No. 114, *Those Charged with Governance*—

Big impact—auditors will be communicating with a larger audience

Impacts auditor communication for all types of audits

Auditors should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications/those charged with governance when not clearly evident

All Types of GAGAS Audits

Controls Over Electronic Audit Documentation

- Whether audit documentation is in paper, electronic, or other media
 - The integrity, accessibility, and retrievability of the underlying information could be compromised if
 - Documentation is altered, added to, or deleted without auditors' knowledge
 - Documentation is lost or damaged
- For documentation retained electronically, audit organization should establish IS controls concerning the accessing and updating the audit documentation

CAREFUL if you are relying on system-recorded dates as a control to indicate whether work papers have been added or updated—easy to accidentally revise the date of document –and could create problems with any quality control review

All Types of GAGAS Audits

Developing Elements of a Finding

- Elements needed depend on the objectives of the audit
 - Finding is complete to the extent the audit objectives are satisfied
 - Auditor should plan and perform procedures to develop the elements of a finding that are relevant
 - Criteria
 - Condition
 - Cause
 - Effect or potential effect

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For financial audit and attest engagements, apply when have internal control deficiencies, fraud, illegal acts, violations of provisions of contracts or grant agreements and abuse

For all types of audits, elements depends on objectives of audit

Criteria: Identify the required or desired state or expectation; provide a context for evaluating evidence and understanding findings

Condition: A situation that exists—determined and documented during the audit

Cause: Identifies reason or explanation for the condition or factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria)—May also serve as a basis for recommendations for corrective actions

Effect or potential effect: clear logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria)—Identifies the outcome or consequences of the condition—Can be used to demonstrate the need for corrective action in response to identified problems or relevant risks

All Types of GAGAS Audits

Reporting Confidential and Sensitive Information

- If information is excluded from the auditors' report, auditors
 - Should disclose that certain information has been omitted and reason for the omission
 - May issue a separate report and distribute it to only persons authorized to receive it
- If subject to public records laws, auditors should
 - Determine the impact of such laws on the availability of the separate report
 - Determine whether other means of communicating would be more appropriate

Information on public records new to this yellow book

Other means of communicating in these circumstances include general information in a written report and detailed information verbally

Auditors may consult with legal counsel regarding applicable public records laws

All Types of GAGAS Audits

Reporting Views of Responsible Officials

- All performance audit reports and in financial audit reports that disclose deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should
 - Obtain and report views of responsible officials concerning
 - Findings, conclusions, and recommendations
 - Planned corrective actions
 - Include in report an evaluation of the comments, as appropriate
 - If the audited entity does not provide comments, auditors may issue report
 - Indicate that the audited entity did not provide comments

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Continued requirement that for financial audit and attest engagements, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned correctives

For performance audits—all audits, and no change in requirement to obtain comments

If provided technical comments in addition to written and oral comments, may disclose that such comments were received and evaluated

Explicitly addresses what to do when the audited entity refuses or is unable to provide comments within a reasonable period of time

- Auditors may issue report without comments
- Should indicate in the report that the audited entity did not provide comments

All Types of GAGAS Audits

Distributing reports

- Distribution of reports depends on
 - The relationship of the auditors to the audited organization
 - The nature of the information contained in the report
- Different requirements for
 - Government audit organizations (external)
 - Internal audit organizations in government
 - Public accounting firms

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Government audit organizations –distribute, as appropriate, to

- those charged with governance
- appropriate officials of the audited entity, and
- appropriate oversight bodies or organizations requiring or arranging for the audits
- Also to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and
- Others authorized to receive such reports

Internal auditor organizations in government entities follow IIA and GAGAS stds (which are consistent)

- Communicate results to parties who can ensure that the results are given due consideration
 - If not mandated by L/R, prior to release to outside parties
1. Assess potential risk to organization
 2. Consult with senior management and/or legal counsel
 3. Control dissemination by indicating the intended users of report

Public accounting firms-should clarify report distribution responsibilities with engaging parties

If firm to make distribution, should reach agreement with the engaging organization about

- which officials or organizations should receive the report and
- Steps being taken to make report available to public

Changes Related to Internal Auditors

- Encouraged internal auditors to use IIA standards in conjunction with GAGAS
- Clarified that the nonaudit service of carrying out internal audit functions applies to external auditors
- Modernized the criteria for organizational independence for internal audit functions
 - Reporting audit results to those charged with governance
 - Access to those charged with governance
 - Sufficiently removed from political pressures
- Emphasized the importance of internal audit as part of the overall governance, accountability, and internal control
- Clarified that internal auditors may follow IIA standards to communicate results of the audit to parties who can ensure that the results are given due consideration

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• Clarified the text in the nonaudit services section to read “carrying out internal audit function when performed by external auditors.” This language clarifies that internal auditors can do their work in accordance with GAGAS

• Sufficient removal from political pressures means the head of the audit office can conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal

• Important for internal auditors also to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives

• Report distribution includes steps taken prior to releasing results to parties outside the organization

Chapter 4: Financial Audit Field Work

- Added the definition of reasonable assurance for financial audits
- Updated communications during planning
- Clarified and streamlined the auditors' responsibilities for provisions of contracts or grant agreements
- Clarified and streamlined the auditors' responsibilities in field work for abuse
- Added a clear and prominent discussion on consideration of fraud and illegal acts
- Updated GAGAS based on recent developments in financial auditing and internal control

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•Added definition of reasonable assurance for financial audits since the definition is included in the general standards when codified, and is therefore not incorporated by reference into GAGAS. GAO's Yellow Book team originally anticipated that this would be codified as a field work standard by the AICPA and therefore, be automatically incorporated by reference.

•Definition “Under AICPA standards and GAGAS, auditors must plan and perform the audit to obtain sufficient appropriate audit evidence so that audit risk will be limited to a low level, that is, in their professional judgment, appropriate for expressing an opinion on the financial statements. The high, but not absolute, level of assurance that is intended to be obtained by auditors is expressed in the auditor’s report as obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, an audit conducted in accordance with GAAS may not detect a material misstatement.”

•Auditors in financial audit practices may want to early implement chapter 4 in its entirety, because most of this chapter deals with AICPA standards that have earlier effective dates than the YB.

Chapter 4: Financial Audit Field Work Communication During Planning

- Auditors are required to communicate their understanding of the services to be performed for each audit
 - Communication is required to be written
 - To both management and those charged with governance
 - If not clear who is those charged with governance, the auditor should
 - Document the process followed
 - Document conclusions reached for the appropriate individuals to receive the auditors' communications

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As required by SAS No. 108—requirement for communication in writing is new

Clarified that when auditors perform the audit pursuant to law or regulation and they conduct the work for the legislative committee that has oversight for the audited entity, auditors should communicate with the legislative committee

Chapter 4: Financial Audit Field Work

Provisions of Contracts or Grant Agreements

- Auditors should design the audit to provide reasonable assurance of detecting misstatements that result from violations of provisions of contracts or grant agreements that could have a direct and material effect on financial statement amounts or other financial data significant to the audit objectives
- When auditors conclude that a violation of provisions of contracts or grant agreements has or is likely to have occurred, they should determine the effect on the financial statements as well as implications for other aspects of the audit

Requirement itself is not new but added clarifying language

Second bullet is new

Chapter 4: Financial Audit Field Work Abuse

- If auditors become aware of indications of abuse that could be material, auditors should apply audit procedures specifically to ascertain
 1. The potential effect on the financial statements, or
 2. The potential effect on other financial data significant to the audit objectives
- However, because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse
- After performing additional work, auditors may discover that the abuse represents potential fraud or illegal acts

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Bottom line: Auditors' fundamental responsibility has not changed w/ respect to abuse. (par 4.12-4.13)

Abuse involves behavior that is deficient or improper when compared w/ behavior that a prudent person would consider reasonable and necessary business practice given the facts & circumstances.

Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

Appendix paragraph A.06 provides examples of abuse

Chapter 4: Financial Audit Field Work Fraud and Illegal Acts

- Clarifies the existing standard but does not change auditors' responsibilities
- Under both the AICPA standards and GAGAS, auditors have the following responsibilities:
 - Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud
 - Design the audit to provide reasonable assurance of detecting material misstatements resulting from illegal acts that could have a direct and material effect on the financial statements

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Fraud and Illegal Acts

No change in responsibility from the 2003 YB

Anchored in SAS 99 and SAS 54

Important for auditors to recognize the possibility that a material misstatement due to fraud could be present.

Chapter 4: Financial Audit Field Work Audit Documentation

- Updated the standard to achieve consistency with SAS No. 103
- The auditor should prepare audit documentation that enables an experienced auditor, having no previous connection to the audit to understand:
 - Nature, timing and extent of procedures performed
 - The results of procedures performed and evidence obtained
 - That the accounting records agree or reconcile with the audited financial statements or other audited information
 - The conclusions reached on significant matters

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Consistent with AICPA's SAS 103—GAO served on task force
Similar to the documentation standard in the 2003 YB

Combined requirements essentially unchanged from 2003 YB.

These additive requirements address:

- documenting noncompliance with GAGAS requirements
- establishing policies and procedures for safe custody and retention of audit documentation
- making audit documentation available to other auditors and reviewers
- developing policies for handling requests by outside parties to obtain access to audit documentation

Makes sense to implement this requirement early
since it is so closely conformed to SAS 103

Chapter 5: Financial Audit Reporting

- Updated reporting requirements for internal control deficiencies
- Encouraged communicating in the auditors' report significant concerns, uncertainties or other unusual events that could have a significant impact on the financial condition or operations
- Increased transparency surrounding reporting on restated financial statements

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Auditors in financial audit practices will need to early implement the internal control provisions because it incorporates an AICPA standard that has earlier effective dates than the YB.

The 2nd bullet on communicating significant matters in the auditors report, is not a requirement but an encouragement

The 3rd bullet involves new auditor responsibilities related to restated financial statements that go beyond ACIPA standards.

Chapter 5: Financial Audit Reporting Internal Control

Definitions of Internal Control Deficiencies (Consistent with SAS No. 112):

Significant deficiency – a deficiency in internal control, or combination of deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected.

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consistent with definitions in AICPA – SAS 112 and PCAOB – AS 2

GAO has advocated and promoted consistency among US standard setters.

PCAOB has issued a proposed new ic standard with revised definitions...

The YB reminds auditors that the significance of a deficiency in internal control is influenced by

- 1) the likelihood that a deficiency, or combination of deficiencies, could fail to prevent or detect a material misstatement of an account balance or disclosure; and
- 2) the magnitude of the potential misstatement.

Chapter 5: Financial Audit Reporting Internal Control

Definitions of Internal Control Deficiencies (Consistent with SAS No. 112):

Material weakness – a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

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Assessing the significance of control deficiencies includes not only quantitative considerations but also qualitative considerations such as public accountability of the audited entity, legal and regulatory requirements, the visibility and sensitivity of the entity or program, the needs of users and concerns of oversight officials, and current and emerging risks and uncertainties facing the audited entity

***Important to discuss new terminology and definitions with oversight officials and entities under audit
best to inform them in advance

Reporting Internal Control Deficiencies

Old Definitions

New Definitions

Material weakness ('03 GAGAS para. 5.14 and SAS 60, para. 15)	Material weakness (AU 325.06 and '07 GAGAS para. 5.11b)
Reportable condition ('03 GAGAS para. 5.13 and SAS 60, para. 02)	
Management letter comment ('03 GAGAS para. 5.16)	Significant deficiency (AU 325.06 and '07 GAGAS para. 5.11a)
	Other matters related to internal control ('07 GAGAS para. 5.14)

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Graph illustrates issues involved with new terminology and definitions

Left column represents old terms/definitions (Including the 2003 Yellow Book)

Right column represents new terms/definitions

New definitions broader than old ones result—deficiencies now considered reportable conditions may now be material weaknesses

Management letter items may now be significant deficiencies

Auditors should include all significant deficiencies in the report on internal control and indicate those that represent material weaknesses

No requirement to issue a management letter for deficiencies less than a significant deficiency.

Determining whether and how to communicate them is a matter of professional judgment.

Chapter 5: Financial Audit Reporting

Reporting Fraud, Illegal Acts, Other Noncompliance, Abuse

When auditors conclude that any of the following has occurred or is likely to have occurred, they should include in the audit report the relevant information about:

- Fraud and illegal acts that are greater than inconsequential
- Material violations of contracts or grant agreements
- Material abuse

Include in auditors' report relevant information about:

- Fraud and illegal acts that have an effect on the fs that is more than inconsequential
(previously reported all fraud)
- Violations of provisions of contracts or grant agreements that have a material effect on the fs
(previously reported significant violations)
- Abuse that is quantitatively or qualitatively material
(previously reported significant abuse that has occurred or is likely to have occurred)

Chapter 5: Financial Audit Reporting Management Letter

- Determining whether and how to communicate is a matter of professional judgment (should be documented)
 - Illegal acts, violations of provisions of contracts or grant agreements or abuse that is inconsequential
 - Internal control deficiencies that have an inconsequential effect on the financial statements
- Should be communicated in writing
 - Violations of provisions of contracts or grant agreements or abuse that have an effect that is less than material but more than inconsequential

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If the auditor finds violations of provisions of contracts or grant agreements or abuse that is less than material but greater than inconsequential, then need to issue management letter

However, for internal control deficiencies or violations of provisions of contracts of grant agreements or abuse is inconsequential can be communicated in a different form than a formal written management letter

Added a sentence to clarify that if the auditors issued or intend to issue a management letter relating to the current audit, they should refer to the management letter in the report.

Chapter 5: Financial Audit Reporting Communicating Significant Matters

- Auditors may communicate the following matters when they become aware that such issues exist:
 - Significant concerns or uncertainties about the fiscal sustainability of a government or program significant to the financial condition or operations
 - Unusual or catastrophic events that will likely have significant ongoing or future impact
 - Significant uncertainties
 - Any other matter that the auditors consider significant
- Determining whether to communicate in the auditors' report is a matter of professional judgment

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New! Due to public interest in operations of govt entities and entities that receive or administer govt awards.

In GAGAS audits, there may be situations in which certain info would help facilitate the readers' understanding of the fs and the auditors' report.

This is in addition to the examples presented in AU 508.19 *Emphasis of a Matter*

May be presented in a separate paragraph or separate section of the auditors' report and may include information not disclosed in the fs

GAO's report on consolidated fs of US govt is an example of reporting such significant matters

Chapter 5: Financial Audit Reporting Restatements-Increased Transparency

- Auditors should advise management to make appropriate disclosures when the auditors believe it is likely that previously-issued financial statements are misstated and the misstatement is or reasonably could be material (AU 561)
- Under GAGAS, auditors have additional responsibilities in the following areas:
 - Evaluate the timeliness and appropriateness of management's disclosure and actions to determine and correct misstatements in the previously-issued financial statements
 - Report on restated financial statements
 - Report directly to appropriate officials when the audited entity does not take the necessary steps

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Anchored in AU 561 *Subsequent Discovery of Facts Existing at Date of Auditors Report*

Additive GAGAS requirements:

- 1) Evaluating timeliness + appropriateness of mgt disclosure + actions to correct misstatement
- 2) Reporting on restated f/s
- 3) Reporting directly to appropriate officials when audited entity does not take necessary steps

Chapter 5: Financial Audit Reporting Restatements--Increase Transparency

Evaluating the timeliness and appropriateness of management's disclosures and actions (AU 561)

- Auditors should evaluate the timeliness and appropriateness of
 - management's disclosures to those likely to rely on the financial statements and
 - management's actions to determine and correct misstatements in previously-issued financial statements

Chapter 5: Financial Audit Reporting

Restatements--Increase Transparency

Evaluating the timeliness and appropriateness of management's disclosures and actions

Under GAGAS, auditors should also evaluate whether management

- Acted in an appropriate time frame after new information was available
- Disclosed the nature and extent of the known or likely material misstatements
- Disclosed whether specified information was in the entity's restated financial statements

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Management should disclose following information in the restated financial statements

- 1—nature and cause(s) of the misstatement(s) that lead to the need for restatement
- 2—the specific amount(s) of the material misstatements),
- 3—the related effect(s) on the previously-issued financial statements
- 4—the impact on the financial statements as a whole and on key information included in the MD&A

Auditor's responsibility is to evaluate the timeliness and appropriateness of management's disclosure and actions

Chapter 5: Financial Audit Reporting Restatements--Increased Transparency

Report on restated financial statements

Auditors should perform audit procedures sufficient to reissue or update the audit report on the restated financial statements regardless of whether the restated financial statements are separately issued or presented on a comparative basis

- Explanatory paragraph includes:
 - Disclosure that the previously-issued financial statements have been restated
 - Statement that previously-issued report is not to be relied on and is replaced by a revised report
 - Reference to the notes that discuss the restatement
 - If applicable, reference to the report on internal control

Auditors should include this information in an explanatory paragraph in the reissued or updated audit report (par 5.29)

Chapter 5: Financial Audit Reporting Restatements--Increased Transparency

Report directly when the audited entity does not take the necessary steps

- Auditors should notify those charged with governance if entity management
 - Does not act in an appropriate timeframe
 - Does not restate with reasonable timeliness
- Auditors should inform those charged with governance that they will take steps to prevent further reliance on the audit report and advise them to notify oversight bodies and funding organizations
 - If not notified, auditors should do this notification

In those rare situations when management does not take appropriate action, auditors have a responsibility to report directly to appropriate officials about the misstated, previously-issued financial statements.

(par. 5.31)

Chapter 6

Attestation Engagements

Conforming changes have been made for the following items:

- Definitions of internal control deficiencies
- Description of abuse
- Audit documentation
- Use of terminology to define professional requirements
- Reporting views of responsible officials and confidential and sensitive information
- Issuing and distributing reports

Conforms with changes in chapters 1, 4 and 5

Chapters 7 & 8 Performance Audits

Enhanced performance auditing standards that elaborate on the overall framework for high-quality performance audits including by

- Defining the level of assurance associated with a performance audit as providing reasonable assurance evidence is sufficient and appropriate to support the auditors' findings and conclusions
- Adding a section on the concept of significance
- Adding a section on audit risk and specifically adding risk as a factor to be used in planning and evaluation of the evidence

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A significant rewrite of chs 7 & 8—assurances framework

- More fully developed definition of a performance audit—revised to place perf audit stds within a professional framework related to the concepts of significance, audit risk, and sufficient appropriate evidence to provide reasonable assurance in relation to the audit objectives
- focused on aligning audit objectives, evidence and conclusions while acknowledging that these can be very different across different types of PA
- Written to be very flexible—to be used to answer a variety of audit questions
- Gives auditors latitude to make professional judgments to decide what makes sense in the circumstances based on the overarching requirement that they provide reasonable assurance

Chapters 7 & 8

Performance Audits (con't.)

- Added a section describing the auditors' overall assessment of the collective evidence to support the findings and conclusions
- Added a section on information systems controls for the purpose of assessing audit risk and planning the audit

Chapters 7 & 8

Performance Audits (con't.)

- Expanded the auditors' compliance with GAGAS in the performance audit report
- Clarified and streamlined:
 - the auditors' responsibility for reporting the views of responsible officials
 - Reporting confidential and sensitive information
 - For issuing and distributing reports

Chapters 7 & 8

Performance Audits

Level of assurance in performance audits

Performance audits that comply with GAGAS provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions

Very simple definition, but difficult to articulate because PA objectives are so different and needed a definition to fit the wide range of objectives

- Levels of evidence and tests of evidence will vary based on audit objectives and conclusions. Must have alignment between audit objectives, levels of evidence and auditors conclusions to provide reasonable assurance that conclusions are correct. Auditors use Professional Judgment in ensuring this alignment by deciding on the scope and methodology needed to achieve the audit objectives an provide reasonable assurance

- Reasonable assurance--based on objectives you need to get enough of the right type of evidence to make a conclusion that is reliable –have to consider all of these things in relation to one another when concluding about whether you have reasonable assurance

Chapters 7 & 8 Performance Audits

Concept of significance in a performance audit

Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of relevant information, and the impact of the matter to the audited program or activity

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Magnitude in relation to the subject matter (similar to concept of materiality)

- Defined term of concept—simple but high level because PA can have widely varying objectives—defined in relation to the context in which it's being considered, such as the audit objectives, size of the program or sensitivity of the program

Significance considers both

- Quantitative factors (such as quantity, volume, or dollar amounts)
- Qualitative factors (which can depend on nature of the subject matter, and the needs and interests of intended users or recipients)—sometimes in an audit, something may be very small and minor but it is so sensitive in a qualitative way that you need to consider it
- Qualitative factors often are the critical factors on PA

Chapters 7 & 8 Performance Audits

Audit risk

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud.

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Audit risk= Possibility that the auditor may be wrong—could provide improper findings, conclusions, recommendations or level of assurance

- Could happen because
 - Information obtained not sufficient or appropriate
 - Audit process was inadequate or
 - Information was inaccurate due to misrepresentation or fraud
 - Auditor may have missed something


Chapters 7 & 8 Performance Audits

Audit risk

Auditors **must** plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions

Matter of Professional judgement but it is important to think about risk in planning, performing, and reporting –what is the risk that we are going to get it wrong, and conversely, what is the assurance that we have it right (reasonable assurance side of this concept)

Important to also keep in mind that in determining what you consider to be a sufficiently low level of audit risk should be viewed in terms of the political sensitivity of the subject matter of the audit or other qualitative factors, in addition to the dollar value or other types of quantitative measures



Chapters 7 & 8
Performance Audits

Sufficient, appropriate evidence

Appropriateness is defined as a measure of quality of evidence that encompasses the relevance, validity, and reliability of evidence used for addressing the audit objectives and supporting findings and conclusions

Sufficiency is defined as a measure of quantity of evidence used for addressing the audit objectives and supporting findings and conclusions

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- One of the key elements in perf auditing is obtaining sufficient, appropriate evidence
- Concepts are not new – revised terminology - talked about sufficiency, reliability, validity, and relevance in the past – now sufficiency and appropriateness
 - Appropriateness – measure of quality, encompasses relevance, reliability and validity – not new, concept was referred to as competent and relevant previously & considers whether evidence of a high enough quality to serve your needs
 - Sufficiency – measure of the quantity – do you have enough evidence to support what is being reported
- Evidence must be considered in light of the audit objectives. Appropriate for one audit objective, may not necessarily be appropriate for another.
- Added an emphasis on overall, collective appropriateness and sufficiency of evidence
 - Talk about sufficient, appropriate evidence in a collective manner so really it's the collective evidence that you have gathered during the audit that you need to weigh in relation to the audit objectives
 - Some individual data pieces may be questionable but may be able to line that up with other corroborating evidence and when you put that all together you collectively have sufficient appropriate evidence based on professional judgment

Chapters 7 & 8 Performance Audits

Added a section describing the overall assessment of the collective evidence to support the findings and conclusions

- Assessment of evidence depends on the nature of the evidence, how it is used, and the audit objectives
- Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives
- Evidence is not sufficient and appropriate when it
 - Carries an unacceptably high risk that it could lead to an incorrect or improper conclusion
 - Has significant limitations
 - Does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions

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Now greatly expanded –should determine the overall sufficiency and appropriateness to provide a reasonable basis for findings and conclusions within the context of the audit objectives

This assessment needs to be document as well as any specific assessments on the validity and reliability of specific evidence

Are relative concepts—think about these as continuum rather than absolutes—and are evaluated in the context of the related findings and conclusions

When limitations or uncertainties that are significant to the audit findings and conclusions, apply procedures such as

1. Seek independent, corroborating evidence from other sources
2. Redefine the audit objectives or limit the audit scope to eliminate need for evidence
3. Present findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence (if necessary to avoid misleading the report users about the findings or conclusions)
4. Determining whether to report the limitations or uncertainties as a finding (any related significant i/c deficiencies)

Chapters 7 & 8 Performance Audits

Added a section of information systems controls for the purpose of assessing audit risk and planning the audit

- Consist of those internal controls that are dependent on information systems processing
- Include general controls and application controls
- Are significant to the audit objectives if auditors determine that it is necessary to evaluate the effectiveness of information system controls in order to obtain sufficient, appropriate evidence
- If significant, auditors should evaluate the design and operating effectiveness of such controls by performing audit procedures

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General controls are policies and procedures that apply to all or a large segment of an entity's IS and include security management, logical and physical access, configuration management, segregation of duties, and contingency planning

If significant to audit objectives auditors should evaluate the effectiveness of such controls by performing procedures including

Gaining an understanding of the system as it relates to the information

Identifying and evaluating the general controls and application controls that are critical to providing assurance over the reliability of the information

Applications controls are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing.

Chapters 7 & 8 Performance Audits Fraud

In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives

Auditors should

- Discuss fraud risks among the audit team
- Gather and assess information to identify risk of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions

When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that are significant within the context of the audit objectives, they should design procedures to provide reasonable assurance of detecting such fraud

Same basic responsibility as 03 YB

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Chapters 7 & 8 Performance Audits Abuse

- If auditors become aware of indications of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain
 - The potential effect on the program under audit within the context of the audit objectives
- However, because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse
- After performing additional work, auditors may discover that the abuse represents potential fraud or illegal acts

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Bottom line: Auditors' fundamental responsibility has not changed w/ respect to abuse. (par 4.12-4.13)

Abuse involves behavior that is deficient or improper when compared w/ behavior that a prudent person would consider reasonable and necessary business practice given the facts & circumstances.

Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

Appendix paragraph A.06 provides examples of abuse

Chapters 7 & 8 Performance Audits

Legal and Regulatory Requirements, Provisions of Contracts or Grant Agreements

- Auditors should determine which laws, regulations, and provisions of contracts or grant agreements are significant within the context of the audit objectives and assess the risk that violations of those laws, regulations, and provisions of contracts or grant agreements could occur
- Auditors should design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements that are significant within the context of the audit objectives

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1. Determine which laws, regs, and provision of contracts or grant agreements are significant within context of audit objectives
2. Assess risk that violations could occur
3. Design and perform procedures to provide reasonable assurance of detecting instances of violation that are significant within the context of the audit objectives

Chapters 7 & 8 Performance Audits

GAGAS statement in audit report

When auditors comply with all applicable GAGAS requirements, they should use the following language in the report:

“We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.”

This statement represents an unmodified GAGAS compliance statement

Revised GAGAS statement: adding this revised statement provides 3 things:

- 1-what is an audit,
- 2-what the auditor did, and
- 3-that the audit was done in accord. w/ stds

Statement ties it all together--not only did we comply with GAGAS but saying what those standards require and then that we believe the evidence obtained provides a reasonable basis for findings and conclusions based on audit objectives

Expanded statement -----1-educates users and gives them a greater appreciation of what auditors do, and 2-increases transparency and disclosure about scope and methodology helps users understand what the audit means and what the auditor did

Chapters 7 & 8 Performance Audits

Discovery that Report was Issued Without Sufficient, Appropriate Evidence

- If after the report is issued, auditors discover they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate with
 - Those charged with governance
 - Appropriate officials of the audited entity
 - Appropriate officials of the organizations requiring or arranging for the audits
- If report was posted to auditors' publicly accessible Web site
 - Remove the report
 - Post a public notification that the report was removed
- Determine whether to conduct additional audit work necessary to reissue report with revised findings or conclusions

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So that they do not continue to rely on findings or conclusions that were not supported

- This applies regarding the evidence available at the time of the audit
- This does not apply if new events happen AFTER the report is out that would be considered "update"

Appendix Supplemental Guidance

Added an appendix to provide supplemental guidance to assist auditors in the implementation of GAGAS

- Does not establish additional GAGAS requirements
- Overall supplemental guidance includes examples of
 - Deficiencies in internal control
 - Abuse
 - Fraud Risk
- Overall guidance includes guidance on determining whether laws, regulations, or provisions of contracts or grant agreements are significant

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Also guidance for specific chapter

C1—laws, regs, and guidelines that require use of YB

Role of those charged with governance in accountability

Management's role in accountability

Ch 3—Nonaudit services for government audit entities

--System of Quality

- Establishing policies and procedures to address 1-audit and attestation performance, documentation, and reporting, and 2-monitoring of quality

Examples of additional information to describe the peer review process and how it applies to its organization

Ch 7-Types of evidence and appropriateness of evidence in relation to the audit objectives

Ch 8-report quality elements

July 2007 Revision Implementation Dates

- For performance audits, the standards are effective for audits beginning on or after January 1, 2008.
- For financial audits and attestation engagements, the standards are effective for audits of periods beginning on or after January 1, 2008.
 - Certain standards issued by the AICPA Auditing Standards Board (ASB) have earlier effective dates. Effective dates of those new ASB standards apply to GAGAS audits.
 - Until the 2007 revision becomes effective, auditors should adopt the terminology and definitions of SAS No. 112 in reporting on internal control
- Early implementation is permissible and encouraged

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Early implementation of the 2007 revision of *Government Auditing Standards* will be permitted.

GAO is encouraging early implementation of financial audit chapters—because AICPA standards become effective and since the YB builds on them....

Minimum—early implement new definitions of SAS 112—confusing to do otherwise

The effective dates are the same as the January 2007 revision

Related Guidance that Accompanies the 2007 Revision

- Guidance on GAGAS Requirements for Continuing Professional Education (GAO-05-568G, April 2005)
- Answers to Independence Questions (GAO-02-870G, July 2002)
- Available at <http://gao.gov/govaud/ybk01.htm>

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CPE document—

- Replaces April 1991 document entitled Interpretation of Continuing Education and training Requirements
- Is effective for CPE measurement periods beginning on or after June 30, 2005
 - Early adoption encouraged
- Available only electronically

Independence Q &As

- Based on Amendment No. 3 Independence (GAO-02-388G)
- Updated paragraph references to the July 2007 revision of GAGAS will be posted soon

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July 2007 Yellow Book

Questions or Comments?

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