



# GAO Yellow Book Update

AGA PDT Conference

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# Auditing Standards

- The US Government Accountability Office (GAO) issued the 2024 revision of Government Auditing Standards, also known as the Yellow Book, on February 1, 2024
  - The Yellow Book initial version dates back to the 1970s and has gone through many revisions
- These standards are commonly referred to as generally accepted government auditing standards (GAGAS)
- The American Institute of Certified Public Accountants (AICPA) also provides generally accepted auditing standards (GAAS) for completing audit and attestation engagements, but are not specific to government



# Purpose of Auditing Standards

- These standards are intended to help ensure that an audit organization produces reliable, objective, and high-quality engagements for use in holding management and officials entrusted with public resources accountable for carrying out their duties
- Government Auditing Standards provide a framework when reviewing government programs and spending



# Need for Revisions to GAGAS

- GAO regularly reviews the standards included in the Yellow Book to ensure they meet the needs of the evolving financial environment and evaluate consistency across standard setting bodies
  - The AICPA issued updated Quality Management Standards in June 2022 as part of GAAS
- Revisions to Government Auditing Standards undergo an extensive, deliberative process, including public comment and input from the Comptroller General's Advisory Council on Government Auditing Standards



# Applicability of the Yellow Book

- Specifically, the Yellow Book contains standards to perform the following engagements related to government entities or entities receiving government awards
  - Financial audits
  - Attestation engagements
  - Performance audits
- The Yellow Book also provides specific requirements for individual auditors and audit organizations completing government audits



# 2024 Revision

- This revision is not a full-scale revision visiting all chapters of the Yellow Book
  - The focus is on how organizations manage audit quality which is mainly contained in Chapter 5
    - Change in approach from quality control to quality management
    - Risk-based process for achieving the objectives of quality management
    - Provisions for optional engagement quality reviews of GAGAS engagements
    - Application guidance on key audit matters for financial audits



# Other Changes Reflected in the 2024 Revision

- Scalability of the system of quality management for use by audit organizations of differing sizes and complexity
- Flexibility for audit organizations subject to other quality management standards
- Emphasis on the responsibility of an audit organization's leadership to proactively manage quality on its engagements



# Flexibility and Scalability

- A nongovernment audit organization subject to the quality management standards of certain recognized organizations should comply with the respective organization's quality management requirements and specific additional requirements identified
  - AICPA
  - International Auditing and Assurance Standards Board
  - Public Company Accounting Oversight Board (PCAOB)
- The audit organization should exercise professional judgment in designing, implementing, and operating a system of quality management, considering the nature and circumstances of the audit organization and its engagements





# Revision Comparison

## 2018 Revision Chapter 5

Chapter 5: Quality Control and Peer Review	81
Quality Control and Assurance	81
System of Quality Control	81
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## 2024 Revision, Chapter 5

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→ Quality Management Risk Assessment Process	86
Governance and Leadership	91
Independence, Legal, and Ethical Requirements	92
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# System of Quality Management

- The objective of a system of quality management for engagements performed in accordance with GAGAS is to provide the audit organization with reasonable assurance that they
  - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations
  - Perform and report on engagements in accordance with such standards and requirements



# Emphasis on Leadership to Proactively Manage Quality

- The audit organization should assign
  - Responsibility and accountability for the system of quality management to a senior-level official within the audit organization
  - Operational responsibility for the system of quality management or specific aspects of the system of quality management to a specific individual or individuals
- The individuals assigned should
  - Possess the appropriate experience, knowledge, influence, and authority within the audit organization
  - Have sufficient time and resources to fulfill the assigned responsibility
  - Have a sufficient understanding of this chapter and other applicable GAGAS requirements to understand the objectives and apply requirements properly
  - Understand the assigned roles and are held accountable for fulfilling them



# Risk-Based Approach

- GAGAS establishes a risk-based approach to designing, implementing, and operating the system of quality management in an interconnected and coordinated manner
  - Establishing the desired outcomes relative to the components of the system of quality management (quality objectives)
  - Identifying and assessing risks to achieving the quality objectives (quality risks)
  - Designing and implementing responses to address quality risks



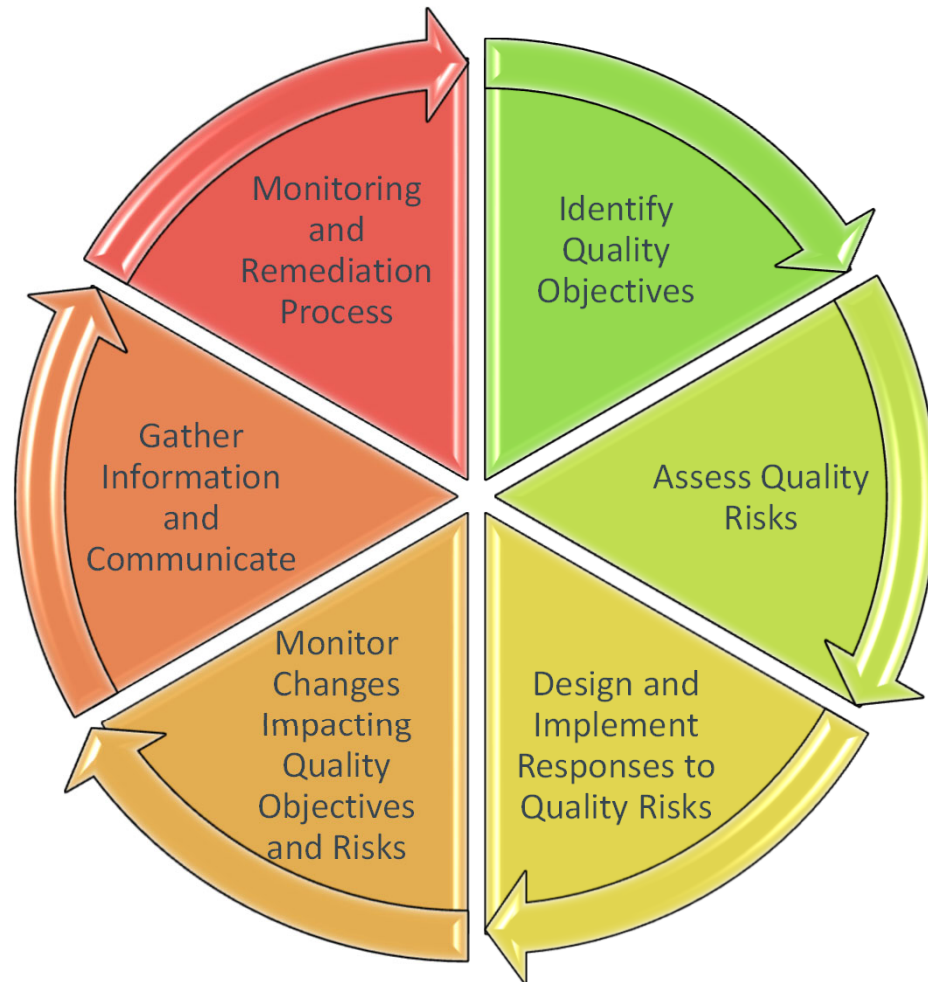
# Risk Assessment and Quality Objectives

- Responsibility for the system of quality management
  - The audit organization should design and implement a risk assessment process that establishes quality objectives, identifies and assesses quality risks, and designs and implements responses to address the quality risks
    - Obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives and
    - Consider how, and the degree to which, the conditions, events, circumstances, actions, or inactions may adversely affect the achievement of the quality objectives
  - Design and implement response to address the quality risks
  - Identify, analyze and respond to changes that could affect the quality objectives, risks, or responses



# Process of Quality Management

- Identify, assess, design, communicate, monitor, and remediate
- Repeat
- This is an iterative process where changes are identified and addressed on an ongoing basis



# Engagement Quality Review

- Requirements for performing engagement quality reviews for an audit organization that determines that an engagement quality review is an appropriate response to address quality risks
- An engagement quality review is an objective evaluation of the engagement team's significant judgments and the conclusions reached thereon



# Engagement Quality Review

- Engagement quality reviews can contribute to audit quality by serving as a safeguard against erroneous or insufficiently supported audits, thereby mitigating audit risk
- The audit organization may determine that an engagement quality review is appropriate for all GAGAS engagements, specific types of GAGAS engagements, or specifically identified GAGAS engagements
- The audit organization may determine that engagement quality reviews are not necessary to address quality risks





# Key Audit Matters

- When auditors comply with all applicable GAGAS requirements, they should include a statement in the audit report that they conducted the audit in accordance with GAGAS
- Because GAGAS incorporates by reference the AICPA's financial audit standards, GAGAS does not require auditors to cite compliance with AICPA standards when citing compliance with GAGAS
- GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards
- Although there is no requirement in GAGAS to communicate key audit matters in the auditor's report, auditors may be required to do so for other reasons such as law or regulation, request from those charged with governance, etc.



# Documentation

- A lot of the requirements updated in the quality management standards are things auditors are already doing, but aren't necessarily documenting
  - Who is responsible
  - Policies and procedures
  - Risk assessment
  - Remediation plans



# Effective Dates

- The 2018 revision is effective until implementation of the 2024 Yellow Book
- The 2024 revisions are effective for financial audits, attestation engagements, and financial reviews for periods beginning on or after December 15, 2025
- The 2024 revisions are effective for performance audits beginning on or after December 15, 2025



# Effective Date Impact

- Typically chosen to allow entities and auditors ample time to take steps needed to comply
- Early implementation is not always allowed, but it is allowed for this revision
- The critical requirements relating to the effective date are as follows:
  - A system of quality management that complies with the Yellow Book must be designed and implemented by December 15, 2025
  - An audit organization should complete an evaluation of the system of quality management by December 15, 2026



# Timing Examples

- Examples:
  - A city has a financial audit scheduled for its fiscal year ended September 30, 2026—2018 Revision
  - A state has a single audit scheduled for its fiscal year ended June 30, 2027—2024 Revision
  - A state is starting a performance audit of the funding methodology for K-12 schools over a four-year period from 2018 through 2022, it was authorized to begin January 15, 2026—2024 Revision



# Questions

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