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**Government Auditing Standards  
“Town Hall Meeting”**

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**Practitioners Forum  
Input For Next Revision of Yellow  
Book**

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- Discussion of various standards and requirements in the Yellow Book
- Practitioner examples, issues, suggestions
- For use in current effort for prioritizing issues for next revision of the Yellow Book

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- Independence:
  - Overall
  - Non-audit services
  - Quality assurance systems for documenting independence
  - Role of audit office— providing non-audit services
  - Specific non audit services that cause issues
  - Organizational independence issues
  - Disclosure of independence issues in audit reports

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- Competence
  - Workforce/staffing issues?
  - CPE requirements

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- Quality control and assurance
  - Requirement for monitoring procedures
  - Formal inspection programs?
  - Frequency of peer reviews
  - Requirements for peer review teams
  - Difficulties finding peer reviewers
  - Compliance
  - Disclosure of non-compliance

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- Financial Audit Fieldwork standards Incorporate AICPA fieldwork standards, and adds:
  - Auditor communication
  - Considering the results of previous audits and attestation engagements
  - Detecting material misstatements resulting from violations of contract provisions or grant agreements, or from abuse
  - Developing elements of a finding
  - Audit documentation
- Issues or problems in any of the above areas?
- Any other sections or topics that should be added?

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- ✓ Financial audit reporting standards incorporate AICPA reporting standards, and adds:
  - ✓ Referring to the auditor's compliance with GAGAS
  - ✓ Reporting on internal control over financial reporting and on compliance with laws, regulations, and provisions of contracts or grant agreements
  - ✓ Reporting deficiencies in internal control, fraud, illegal acts, violations of contracts or grant agreements, and abuse
  - ✓ Obtaining and reporting views of responsible officials
  - ✓ Consideration of privileged and confidential information, and
  - ✓ Report distribution

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- Financial audit reporting (continued)
- Issues or problems in any of the above areas?
- Any other sections or topics that should be added?
- Is the required scope of reporting for the following areas useful?
  - Internal control
  - Compliance with laws, contracts, and grant agreements
  - Abuse
  - How frequently are issues reported?
  - Can the reports be made more useful?
  - Are there conflicts or issues with Single Audit Reporting?
  - Management letters– how frequently are they being used?

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- Attestation Engagements
  - Examination-level (opinions)
  - Agreed-upon procedures
- How frequently are these used?
- Examples
- Are these useful tools for Government Auditors?
- Is there overlap/ confusion with performance audits?

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- Performance Audits-definition (2.09)
  - an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against **objective criteria**
  - assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues
  - provide information to improve program operations and facilitate decision making by parties with responsibility to oversee and initiate corrective action and improve public accountability.
  - wide variety of objectives— program effectiveness and results, economy and efficiency, internal control, compliance with legal and other requirements, prospective analyses, guidance, summary information
  - generally provide findings, conclusions, and recommendations, and result in issuance of a reports.

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- Performance audits definition (cont)
  - Are there other types of work that should be included in the definition?
  - Does the definition need expanding, shrinking, or clarification?
  - How are results typically reported?
  - Would it be helpful to spell out and define other reporting options?
  - Should reports generally be in writing?

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- Performance Audit Planning-- **Work is to be adequately planned.** Planning should be **documented**, including:
  - Significance of program and need of users
  - Understanding of program
  - Understanding of internal control as it relates to specific objectives and scope of audit
  - Methodology and procedures to detect significant violations of legal and regulatory requirements, contract provisions, or grant agreements, fraud, abuse
  - Criteria
  - Considering results of prior audits
  - Identifying sources of data that can be used as audit evidence
  - Considering whether work of others or specialists will be used
  - Providing appropriate and sufficient staff
  - Communication of audit plan/scope to management
  - Preparing an audit plan/program

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- Performance audit planning (cont.)
  - Issues or problems in any of the above areas?
  - Any other sections or topics that should be added?
  - Clarifications or tools needed?
  - Best practices guidance or tools that we could use for developing widely disseminated guidance?

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- Performance auditors responsibility for fraud (7.21-7.24)
  - auditors should consider the risks due to fraud that could significantly affect their audit objectives and the results of the audit
  - audit team should discuss fraud risks
  - when auditors identify fraud risks that are significant to the audit, auditors should design procedures to provide reasonable assurance of detecting fraud significant to the audit objectives
  - Auditors should be alert to situations or transactions that could be indicative of fraud. When information comes to the auditors' attention indicating that fraud may have occurred, auditors should consider impact on audit and adjust audit procedures accordingly.

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Performance auditors responsibility for fraud (cont.)

- Currently, fraud is not separately "showcased" in the standards.
- Is more emphasis needed?
- What would that emphasis be?
- How prevalent is reportable fraud in Yellow Book audits?
- When fraud is detected, does the engagement change to an investigation or some other type of action that is no longer conducted under Yellow Book standards?
- Does the current guidance need update or revision, and in what respects?
- Is the current guidance adequate— why or why not?

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**Auditor's responsibility for detecting abuse (7.25-7.27)**

- auditors should be alert to situations or transactions that could be indicative of abuse
- when information comes to the auditor's attention that abuse may have occurred, auditors should consider whether the possible abuse has a significant effect on the audit results
- Because the determination of abuse is so subjective, auditors are not expected to provide reasonable assurance of detecting it
- If the potential abuse affects audit results significantly, the auditor should:
  - determine whether the abuse occurred
  - determine its effect on the audit results

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**Auditor's responsibility for detecting and reporting abuse (cont.)**

- How is this working in practice?
- Examples?
- Does "abuse" ever rise to the level of "significant" such that it is reported?
- Is more guidance needed? If so- what types?

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- Standard of evidence:
  - Sufficient, competent, and relevant evidence is to be obtained to provide a reasonable basis for the auditors' findings and conclusions
- Validity and reliability of data gathered by auditee (7.57)
  - Auditors should determine the validity and reliability of data that are significant to the audit objectives and may do so by direct test of the data
  - Auditors may use direct test of data to determine validity
  - Auditor can reduce direct testing by testing the controls over the validity and reliability of the data

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Validity and reliability of data gathered by auditee (cont.)

- How the use of unaudited data gathered by the audited entity affects the auditor's report depends on the data's significance to the auditor's findings.
- For example, in some circumstances, the auditors may use unaudited data to provide background information; however, the use of such unaudited data would generally not be appropriate to support audit findings and conclusions.

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Validity and reliability of data gathered by auditee (cont.)

- How is this being handled in practice?
- What types of approaches are used to "validate" data?
- What types of explanatory language is being used?
- Any "best practices" or tools out there that we could review and consider for use in putting out guidance?
- Is guidance needed?
- Peer review issues?
- At what point does a lack of verifying data cause an engagement to become non-audit services?
- Role of quality assurance system in clearly distinguishing between audit non-audit engagements after all is said and done?

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- GAO Yellow Book team will start re-drafting sections of the Yellow Book in September 2005, and prioritizing projects for input the new draft over the next year or so.
- Council meeting late 2005.
- Know your council members who represent your areas of practice!!!
- Send council members your input.
- Also-- please send input to
  - Jeanette Franzel [franzelji@gao.gov](mailto:franzelji@gao.gov)
  - Yellow Book Account [Yellowbook@gao.gov](mailto:Yellowbook@gao.gov)

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**Government Auditing Standards:  
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- Thanks for your input!!!
- Together, we can continue to lead by example through 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.

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