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## The July 2007 Yellow Book— What You Need to Know

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### Western Intergovernmental Audit Forum

August 21, 2007

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### Session Objectives

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- 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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### GAO's Work to Modernize Auditing Standards

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#### 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**

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- 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***

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### **July 2007 Yellow Book Development of Issues**

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- 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
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## 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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## 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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## 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

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**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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**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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**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

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**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

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**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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**Chapter 2:  
Ethical Principles**

**Five principles:**

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

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### 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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### 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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### 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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### 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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### 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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### 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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**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

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**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

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**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

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### 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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### 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

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### 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 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 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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### 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

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### 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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### 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

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### 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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### 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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### 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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### 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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### 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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### 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

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### 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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### 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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### 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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## 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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## 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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## 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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 <b>Reporting Internal Control Deficiencies</b>	
Old Definitions	New Definitions
<b>Material weakness</b> ('03 GAGAS para. 5.14 and SAS 60, para. 15)	<b>Material weakness</b> (AU 325.06 and '07 GAGAS para. 5.11b)
<b>Reportable condition</b> ('03 GAGAS para. 5.13 and SAS 60, para. 02)	<b>Significant deficiency</b> (AU 325.06 and '07 GAGAS para. 5.11a)
<b>Management letter comment</b> ('03 GAGAS para. 5.16)	<b>Other matters related to internal control</b> ('07 GAGAS para. 5.14)

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**Chapter 5: Financial Audit Reporting**  
**Reporting Fraud, Illegal Acts, Other Noncompliance, Abuse**

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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

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**Chapter 5: Financial Audit Reporting**  
**Management Letter**

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- 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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**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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**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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**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

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**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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**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

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**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

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**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

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**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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**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

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**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

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**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

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**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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**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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**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

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**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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## 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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## 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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## 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

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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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**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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**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.”

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**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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**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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**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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**Related Guidance that Accompanies  
the 2007 Revision**

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- 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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**GAO's Accountability & Standards Team**

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**July 2007 Yellow Book**

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Questions or Comments?

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### Where to Find the Yellow Book

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