

Upcoming Changes to the Yellow Book

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Yellow Book Overview

2018 Chapters:

- ▶ Foundation and Principles
- ▶ General Requirements
- ▶ Ethics, Independence, and Professional Judgment
- ▶ Competence and Continuing Professional Education
- ▶ Quality Control and Peer Review
- ▶ Standards for Financial Audits
- ▶ Standards for Attestation Engagements and Reviews of Financial Statements
- ▶ Fieldwork Standards for Performance Audits
- ▶ Reporting Standards for Performance Audits

Yellow Book** Trivia!

**Generally Accepted Government Auditing Standards

- ▶ What year was the first Yellow Book released?
- ▶ How many pages were there in the first Yellow Book?
- ▶ How many Yellow Books have been issued? (not counting the eagerly anticipated 2024 version)
- ▶ Who follows the Yellow Book?
- ▶ Why are the Government Auditing Standards yellow?



Proposed changes to the Yellow Book

- ▶ Why is GAO revising the Yellow Book?
 - ▶ To align with 2022 changes related to quality management made by AICPA ASB and IAASB

Proposed changes to the Yellow Book

▶ What are the changes?

- ▶ Revisions to the section on quality control and peer review
 - ▶ Renaming to Quality Management, Engagement Quality Reviews, and Peer Review
 - ▶ Updating language to focus on “quality management” instead of “quality control”
 - ▶ Adding information about engagement quality review
- ▶ Added guidance about communicating key audit matters when reporting on financial audits

Proposed changes to the Yellow Book

▶ What is a system of quality management and how is it different from a system of quality control?

- ▶ Includes risk assessment
- ▶ Includes regular assessment and adjustment
- ▶ Still includes annual monitoring requirement
- ▶ Adds requirements for internal communication

Proposed changes to the Yellow Book

- ▶ What are the components of quality management discussed in the revised Yellow Book?
 - Governance and Leadership
 - Independence, Legal, and Ethical Requirements
 - Acceptance, Initiation, and Continuance of Engagements
 - Engagement Performance
 - Resources
 - Information and Communication

Proposed changes to the Yellow Book

- ▶ What are the quality objectives discussed in the revised Yellow Book? Examples include:
 - Leadership demonstrates a commitment to quality
 - Personnel fulfil their responsibilities related to independence and legal/ethical requirements
 - Engagement teams exercise professional judgment
 - Individuals assigned have appropriate competence and capabilities including sufficient time
 - Relevant and reliable information is communicated to teams

Proposed changes to the Yellow Book

- ▶ What is an engagement quality review, and do we always need to do one?
 - An engagement quality review is an objective evaluation of the engagement team's judgments and conclusions
 - Engagement quality reviews are not required, but if you do them the Yellow Book has guidance for you
 - An engagement quality review may be used to respond to an identified quality risk
 - You can decide whether to do an engagement quality review based on the engagement's risk

Proposed changes to the Yellow Book

- ▶ When do the revised Standards take effect?
 - Two years from issuance (so approximately Feb. 2026)
 - Evaluation of the system of quality management should happen within three years of issuance (approximately Feb. 2027)
 - Early adoption is permitted

Process for changing the Yellow Book

- ▶ GAO decides it needs to be changed
- ▶ GAO drafts revisions
- ▶ GAO convenes the Advisory Council to discuss proposed changes
- ▶ GAO makes additional revisions
- ▶ GAO sends out an exposure draft
- ▶ Interested parties send in comments
- ▶ GAO reviews and addresses comments
- ▶ Advisory Council reviews comments and GAO revisions and provides feedback
- ▶ GAO makes additional revisions
- ▶ GAO sets release date and releases revised standards

2023 Yellow Book Exposure Draft Comments

- ▶ 43 entities provided comments
- ▶ Examples of comments:
 - ▶ We appreciate the convergence with AICPA standards
 - ▶ Thanks for including flexibility
 - ▶ What about PCAOB? Can we use their quality standards?
 - ▶ Add guidance on how small organizations can scale the system of quality management

<https://www.gao.gov/2023-Yellow-Book-Exposure-Draft-and-Comments>

Comptroller General's Advisory Council on Government Auditing Standards

- ▶ Role: Review proposed changes to standards to ensure they meet the needs of users
- ▶ Made up of representatives from:
 - ▶ National CPA firms (3)
 - ▶ Federal Offices of Inspector General (4)
 - ▶ State Auditors (2)
 - ▶ City and County Auditors (3)
 - ▶ College professors (1)
 - ▶ Not-for-profit entities (2)

Questions?

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