



# U. S. GAO Government Auditing Standards Update – “The New Yellow Book”

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RENAISSANCE MONTGOMERY HOTEL AND SPA AT THE CONVENTION CENTER, MONTGOMERY, AL

# THE NEW YELLOW BOOK

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*T*ell me and I forget  
*T*each me and I remember  
*I*nvolve me and I learn.

*Benjamin Franklin*

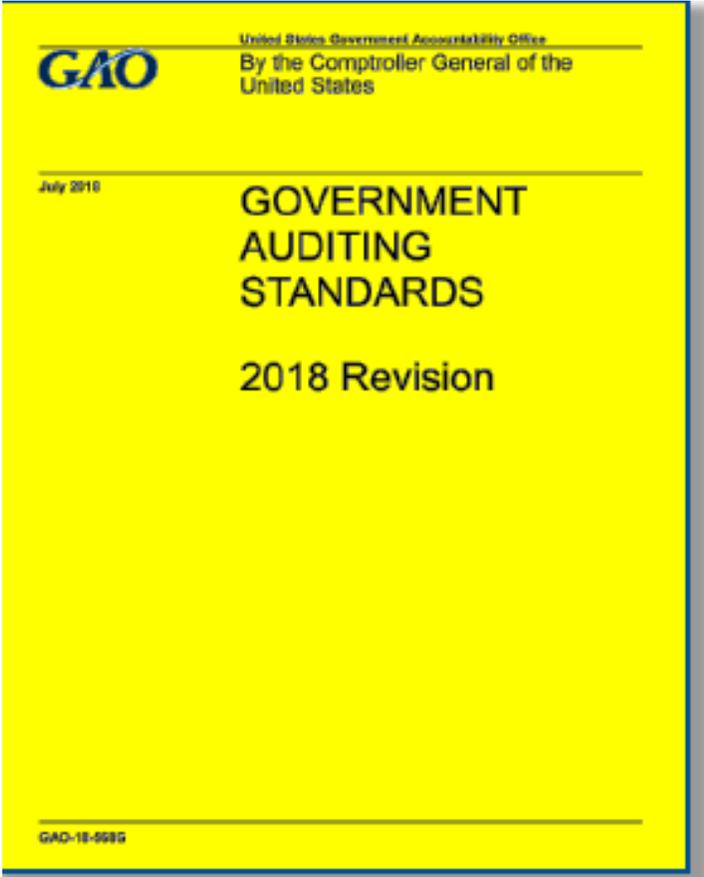
# Learning Objectives

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1. Inform and teach participants about the changes to the Yellow Book
2. To assist participants in assessing the impact of changes on current practice.
3. To assist participants in complying with the Yellow Book when conducting audits in conformity with these standards.
4. To assist participants in acquiring valuable CPE.

# 2018 Yellow Book Revision is Now Available

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# Summary of Changes

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- ❑ Format Changed to differentiate requirements from application material
- ❑ Easier to determine what the standard from application material
- ❑ Supplemental guidance was removed or included in the individual chapters
- ❑ Independence standard has been expanded as it relates to the preparation of financial statements from client provided trial balances or underlying accounting records

# Summary of Changes

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- Peer review Standard has been modified
- A definition for waste is provided
- Performance audit standards are updated for situations where internal control is significant to audit objectives

# 2018 YELLOW BOOK

Let's take a look a closer look at the  
changes!



# 2018 YELLOW BOOK LOOKS DIFFERENT

1. 2018 Yellow Book Format Changed
2. Easier to differentiate between standards and application material
3. Standards are encapsulated in a text box

# Look of 2018 Compared to the 2011 Yellow Book

## 2018 YELLOW BOOK

### Chapter 2: General Requirements for Complying with Government Auditing Standards

2.01 This chapter establishes general requirements for complying with generally accepted government auditing standards (GAGAS) that are applicable to all GAGAS engagements. The information it contains relates to how auditors conducting GAGAS engagements identify and apply the requirements contained in GAGAS. The chapter also contains requirements for using other audit standards in conjunction with GAGAS and for reporting compliance with GAGAS in the audit report.

#### Complying with GAGAS

##### Requirements: Complying with GAGAS

2.02 GAGAS uses two categories of requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors and audit organizations:

- a. Unconditional requirements: Auditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant. GAGAS uses *must* to indicate an unconditional requirement.
- b. Presumptively mandatory requirements: Auditors and audit organizations must comply with a presumptively mandatory requirement in all cases where such a requirement is relevant except in rare circumstances discussed in paragraphs 2.03, 2.04, and 2.08. GAGAS uses *should* to indicate a presumptively mandatory requirement.<sup>10</sup>

2.03 In rare circumstances, auditors and audit organizations may determine it necessary to depart from a relevant presumptively mandatory requirement. In such rare circumstances, auditors should perform alternative procedures to achieve the intent of that requirement.

2.04 If, in rare circumstances, auditors judge it necessary to depart from a relevant presumptively mandatory requirement, they must document their justification for the departure and how the alternative

<sup>10</sup>See para. 2.19 for additional documentation requirements for departures from GAGAS requirements.

Standard

## 2011 YELLOW BOOK

### CHAPTER 2 STANDARDS FOR USE AND APPLICATION OF GAGAS (PAGE 13)

#### Use of Terminology to Define GAGAS Requirements

2.14 GAGAS contains requirements together with related guidance in the form of application and other explanatory material. The terminology is consistent with the terminology defined in the AICPA's *Codification of Statements on Auditing Standards*.<sup>23</sup> Auditors have a responsibility to consider the entire text of GAGAS in carrying out their work and in understanding and applying the requirements in GAGAS. Not every paragraph of GAGAS carries a requirement that auditors and audit organizations are expected to fulfill. Rather, the requirements are identified through use of specific language.

2.15 GAGAS uses two categories of requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors and audit organizations, as follows:

- a. Unconditional requirements: Auditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant. GAGAS uses the word *must* to indicate an unconditional requirement.

Standard

# Requirements

How do practitioners know what the requirements are?

- ❑ Standards are surrounded by a text box as previously stated.
- ❑ Standards place certain requirements on practitioners.
- ❑ There are two types of requirements:
  - Unconditional Requirements
  - Presumptively Mandatory Requirements

# Unconditional Requirements

Treat same as generally accepted auditing standards (GAAS-AU-C, Section 200).

- ❑ Practitioners and their firms **MUST** comply with unconditional requirements in all circumstances where the requirement is relevant to GAGAS .
- ❑ The term “**MUST**” denotes an unconditional requirement.
- ❑ They are **MANDATORY**.
- ❑ Practitioners should have an understanding of the **entire text** of GAGAS.

# Presumptively Mandatory Requirements

Treat the same as a GAAS  
Requirement.

- ❑ Practitioners and their firms are required to comply with presumptively mandatory requirements in all cases when that requirement is relevant except in “RARE” cases:
  - Practitioners and their firms determined it was necessary to depart from the requirement and performed alternative procedures to meet the intent of the requirement.
  - Practitioners and their firms MUST DOCUMENT their justification for the departure and how the alternative procedure performed was sufficient to achieve the intent of the requirement.

# Excerpt from the Yellow Book

Application Material is clearly labeled.

Application Material



procedures performed in the circumstances were sufficient to achieve the intent of that requirement.

**2.05** Auditors should have an understanding of the entire text of applicable chapters of GAGAS, including application guidance, and any amendments that GAO issued, to understand the intent of the requirements and to apply the requirements properly.<sup>11</sup>

**2.06** Auditors should consider applicable GAO-issued GAGAS interpretive guidance in conducting and reporting on GAGAS engagements.<sup>12</sup>

#### Application Guidance: Complying with GAGAS

**2.07** GAGAS contains requirements together with related explanatory material in the form of application guidance. Not every paragraph of GAGAS carries a requirement. Rather, GAGAS identifies the requirements through use of specific language. GAGAS also contains introductory material that provides context relevant to a proper understanding of a GAGAS chapter or section. Having an understanding of the entire text of applicable GAGAS includes an understanding of any financial audit, attestation, and reviews of financial statement standards incorporated by reference.<sup>13</sup>

**2.08** The need for auditors to depart from a relevant presumptively mandatory requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the intent of the requirement.

**2.09** The application guidance provides further explanation of the requirements and guidance for applying them. In particular, it may explain more precisely what a requirement means or is intended to address or include examples of procedures that may be appropriate in the circumstances. Although such guidance does not in itself impose a

<sup>11</sup>See <http://www.gao.gov/yellowbook> for GAGAS amendments.

<sup>12</sup>See <http://www.gao.gov/yellowbook> for GAGAS interpretive guidance.

<sup>13</sup>See paras. 2.13, 6.01, and 7.01 for discussion of standards incorporated by reference.

# Application Guidance

Help practitioners understand the  
GAGAS requirements (para. 2.09)

## Application Guidance:

- Provides further explanations of the requirements.
- Explain in precise terms what the requirement means, or the intended meaning.
- Provide examples of procedures that may be appropriate for the circumstance encountered.
- Do not impose a requirement, but is relevant for the proper application of the requirement.
- Provide background information on matters in GAGAS.

# Application Guidance

Terms that identify application requirements.

Application guidance uses the following terms to describe actions and procedures:

- May
- Might
- Could

# Auditor Independence

Independence in Mind

Independence in Appearance

Impair  
Independence

## Requirements: Preparing Accounting Records and Financial Statements

3.87 Auditors should conclude that the following services involving preparation of accounting records impair independence with respect to an audited entity:

- a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;
- b. authorizing or approving the entity's transactions; and
- c. preparing or making changes to source documents without management approval.

Significant  
Threats

3.88 Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence, and should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level in accordance with paragraph 3.33 or decline to provide the services.<sup>22</sup>

Threats

3.89 Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include

- a. recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger;
- b. preparing certain line items or sections of the financial statements based on information in the trial balance;
- c. posting entries that an audited entity's management has approved to the entity's trial balance; and

# Auditor Independence

Independence in Mind

Independence in Appearance

- d. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation.

3.90 Auditors should evaluate the significance of threats to independence created by providing any services discussed in paragraph 3.89 and should document the evaluation of the significance of such threats.<sup>23</sup>

#### Application Guidance: Preparing Accounting Records and Financial Statements

3.91 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, even if the auditor assisted in drafting those financial statements. Consequently, an auditor accepting responsibility for the preparation and fair presentation of financial statements that the auditor will subsequently audit or that will otherwise be the subject matter of an engagement would impair the auditor's independence.

3.92 Source documents include those providing evidence that transactions have occurred (for example, purchase orders, payroll time records, customer orders, and contracts). Such records also include an audited entity's general ledger and subsidiary records or equivalent.

3.93 Determining whether services, as discussed in paragraph 3.89, are significant threats and require safeguards is a matter of professional judgment.

3.94 Factors that are relevant in evaluating the significance of any threats created by providing services as discussed in paragraph 3.89 include

- a. the extent to which the outcome of the service could have a material effect on the financial statements,
- b. the degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements, and

<sup>23</sup>See para. 3.33 for additional requirements related to documenting threats identified and safeguards applied to eliminate or reduce threats to an acceptable level.

# Independence Threats related to Preparing Financial Statements & Accounting Records

Nonaudit Service

When practitioners perform nonaudit services related to financial statements and accounting records, the services either:

1. Impair Independence (para. 3.87)
2. Are Significant Threats (paras. 3.88 and 3.93)
3. Are threats (para. 3.95)

# Auditor Independence

Document Threat Identified and safeguards applied to eliminate or reduce the threat to an acceptable level –Management Participation Threat (Preparation of the Financial Statements)

structure of the government entity being audited, will affect the audit organization's ability to perform work and report results objectively.

3.31 Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level, considering both qualitative and quantitative factors to determine the significance of a threat.

3.32 When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level.

3.33 In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

3.34 If auditors initially identify a threat to independence after the audit report is issued, auditors should evaluate the threat's effect on the engagement and on GAGAS compliance. If the auditors determine that the newly identified threat's effect on the engagement would have resulted in the audit report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the audit organization requiring or arranging for the engagements, and other known users, so that they do not continue to rely on findings or conclusions that were affected by the threat to independence. If auditors previously posted the report to their publicly accessible website, they should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional engagement work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the additional engagement work does not result in a change in findings or conclusions.

# NONAUDIT SERVICES

## IMPAIR INDEPENDENCE

No Change from the 2011 Yellow Book (see para. 3.87). The following items are listed:

1. Determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without management's approval.
2. Authorizing or approving the agency's transactions; and
3. Preparing or making changes to source documents without management's approval.

# NONAUDIT SERVICES

## SIGNIFICANT THREATS

1. Auditor prepares the financial statements (para. 3.88), or
2. Auditor determines that a service related to preparing the financial statements or accounting records is a significant threat (para. 3.93)

### AUDITOR'S RESPONSE

- A. Documents the threats and safeguards applied to eliminate or reduce the threats to an acceptable level (para. 3.33), or
- B. Declines to perform the service (para. 3.88)

# NONAUDIT SERVICES

## THREATS

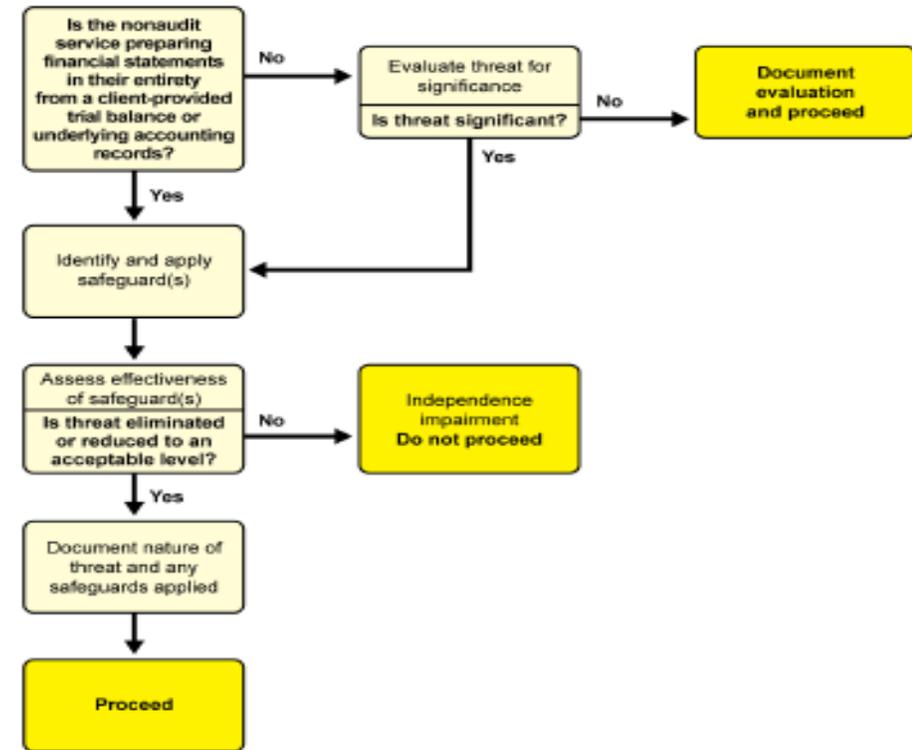
Paragraph 3.90 requires the practitioner to:

1. **Evaluate** the threat and
2. **Document** the Evaluation

# Independence Considerations for Preparing Accounting Records and Financial Statements

Source: 2018 Yellow Book Revision

Figure 2: Independence Considerations for Preparing Accounting Records and Financial Statements



Source: GAO. | GAO-18-568G

# SAFEGUARDS RELATED TO NONAUDIT SERVICES

## EXAMPLES OF SAFEGUARDS

Paragraph 3.69 provides the following examples of safeguards that can be used to address threats to independence related to nonaudit services:

1. Not including individuals who provided the nonaudit service as engagement team members.
2. Having another auditor, not associated with the engagement, review the engagement and nonaudit work as appropriate.
3. Engaging another audit organization to evaluate the results of the nonaudit service, or
4. Having another audit organization to re-perform the nonaudit service to the extent necessary to enable the other audit organization to take responsibility for the service.

# ADDITIONAL INDEPENDENCE GUIDANCE UPDATES

Management's Skills,  
knowledge and experience  
(SKE)

What Constitutes Effective Oversight by Management to oversee a nonaudit service? [para. 3.79]

- A. Management has the ability to determine the reasonableness of the results of the nonaudit service.
- B. Management has the ability to recognize a material error, omission, or misstatement of the results of the nonaudit service.

# ADDITIONAL INDEPENDENCE GUIDANCE UPDATE

Government Audit  
Organizations

Recognizes that certain services provided by government audit organizations would not ordinarily create threats to independence. (See para. 3.72): A few of the services listed in paragraph 3.72 include:

1. Providing information or data to a requesting party without evaluating or verifying the information or data;
2. Developing standards, methodologies, audit guides, audit programs or criteria for use throughout the government or for use in certain specified situations;
3. Providing training, speeches, and technical presentations;
4. Providing audit, investigative, and oversight-related services that do not involve a GAGAS engagement, such as
  - a. Investigations of alleged fraud, violation of contract provisions, or grant agreements, or abuse;
  - b. Periodic audit recommendation follow-up engagement and reports; and
  - c. Identifying best practices or leading practices for use in advancing the practices of government organizations.

# CONTINUING PROFESSIONAL EDUCATION

What are the CPE  
Requirements under the  
2018 Yellow Book?



# CPE REQUIREMENTS

Similar to requirements of 2011 Yellow  
Book.

CPE HOURS	SUBJECT MATTER CATEGORIES OF CPE
24 HOURS	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates
56 Hours	Subject matter that directly enhances auditor's professional expertise to conduct engagement

# CONTINUING PROFESSIONAL EDUCATION

Subjects that Qualify for the  
24 hour CPE Category (para.  
4.23)

Paragraph 4.23 lists subjects that qualify for the 24-hour CPE category to include but not limited to:

- a. Generally accepted government auditing standards (GAGAS) and related topics, such as internal control as addressed in GAGAS;
- b. The applicable American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards;
- c. The applicable AICPA Statements on Standards for Attestation Engagements and Statements on Standards for Accounting and Review Services;
- d. The applicable auditing standards issued by the Institute of Internal Auditors, the Public Company Accounting and Oversight Board, the International Auditing and Assurance Board or auditing standard-setting body;
- e. Fraud topics applicable to a government environment; etc.

# CONTINUING PROFESSIONAL EDUCATION (CPE)

Keep these things in mind.

Paragraph 4.21 explains:

1. The appropriateness of the subject matter provided to satisfy CPE requirements in a matter of professional judgment as determined by individual auditors in consultation with the appropriate officials of the audit organization.
2. Consideration should be given to the types of knowledge, skills, and abilities and the level of proficiency necessary for auditors to perform their assigned roles.
3. Consideration can be given to probable future engagements that may be assigned when consideration is given to the 24-hour and 56 hour CPE requirements.
4. The audit organization is responsible for determining which subjects or topics are acceptable for its auditors.

# CONTINUING PROFESSIONAL EDUCATION

Subject Matter that qualifies  
for the 56-hour requirement

Paragraph 4.24 lists subject matter that qualifies to meet the 56-hour requirement. The following are included in this list:

1. The items included in the 24-hour requirement in paragraph 4.23;
2. General ethics and independence
3. Topics related to accounting, acquisitions, management, asset management, budgeting, cash management, contracting, data analysis, program performance, or procurement;
4. Clear and effective oral and written communication;
5. Managing time and resources
6. Leadership
7. Software applications used in conducting engagements
8. Information technology; and
9. Economics, human capital management, social and political sciences, and other academic disciplines that may be applied in engagements, as applicable.

# CONTINUING PROFESSIONAL EDUCATION (CPE)

## SPECIALISTS

1. External specialist are not auditors subject to the GAGAS CPE requirements. (para. 4.30)
2. Internal specialists assisting on GAGAS engagements that are not involved in planning, directing, performing engagement procedures, or reporting on GAGAS engagements are not auditors subject to the GAGAS CPE requirements (para. 4.30).

### **HOWEVER**

1. Internal specialists who perform work in accordance with GAGAS as part of the audit engagement team—including planning, directing, performing engagement procedures, or reporting on a GAGAS engagement – are considered auditors subject to the GAGAS CPE requirements (para. 4.31).
2. CPE in the specialist area of specializations qualifies under the 24 hour CPE requirement that directly relates to government auditing, government environment, or specific or unique environment in which the audited entity operates.

# PEER REVIEW

## What's New?

### External Peer Review:

Para. 5.60 requires each audit organizations conducting engagements in accordance with GAGAS to obtain an external peer review conducted by independent reviewers to determine:

- a. That the reviewed organization's system of quality control is suitably designed and
- b. That the organization is complying with its quality control system so that it has reasonable assurance that it is performing and reporting in accordance with the professional standards and applicable legal and regulatory requirements in all material respects.

\*\*Para 5.61 acknowledges some recognized organizations who conduct peer reviews and requires audit organizations affiliated with these recognized organizations to comply with their peer reviews requirements and the requirements of paragraphs 5.66 through 5.80.

# PEER REVIEW

EXTERNAL PEER REVIEW –  
RECOGNIZED ORGANIZATIONS FOR  
CONDUCTING PEER REVIEWS

Who are these recognized organizations:

1. American Institute of Certified Public Accountants (AICPA)
2. Council of the Inspectors General on Integrity and Efficiency
3. Association of Local Government Auditors
4. Internal Organization of Supreme Audit Institutions
5. National State Auditors Association

# PEER REVIEW

Other Audit Organizations not affiliated

Para 5.62 requires any audit organization not affiliated with an organization listed in paragraph 5.61 the meet the minimum GAGAS peer review requirements set forth in paragraphs 5.66 through 5.94.

# PEER REVIEW

Requirements to be met.

1. All audit organizations must comply with the GAGAS Peer Review requirements for:
  - a. Assessment of peer review risk (para. 5.66 & 5.67)
  - b. Peer review report ratings (para. 5.72 – 5.74); and
  - c. Availability of peer review report to the public (paras. 5.77 – 5.80)
  - d. Audit organizations affiliated with a recognized organization must also comply with the respective organization's peer review requirements.

# PEER REVIEW

## Requirements for Unaffiliated Audit Organizations

Audit organizations not affiliated with a recognized organization must also comply with additional GAGAS peer review requirements in areas including:

1. Peer review scope (para. 5.82)
2. Peer review intervals (5.84)
3. Written agreement for peer review (para. 5.86)
4. Peer review team (para. 5.89)
5. Report Content (5.91) and
6. Audit organization's response to the peer review report (paras. 5.93 – 5.94)

# PEER REVIEW

## WHAT ARE THE RATINGS

- 1. PASS**
- 2. PASS WITH DEFICIENCIES**  
(communicate the deficiencies in the peer review report)
- 3. FAIL** (communicate the deficiencies and significant deficiencies in the peer review report)

# QUALITY CONTROL

## New requirements

1. Requires (at least annually) written affirmation of compliance with the audit organizations policies and procedures on independence from all personnel required to be independent (para. 5.09).
2. Requires the audit organization to establish policies and procedures for the initiation, acceptance, and continuance of engagements that are designed to provide reasonable assurance that the organization will take on engagements only if it (para. 5.12):
  - a. Complies with professional standards, applicable legal and regulatory requirements, and ethical principles;
  - b. Acts within its legal mandate or authority; and
  - c. Has the capabilities, including time and resources, to do so.

# QUALITY CONTROL

## New Requirements (Cont'd)

3. Para 5.24 requires the audit organization to establish policies and procedures designed to provide it reasonable assurance that:
  - a. Appropriate consultation takes place on difficult or contentious issues that arise among engagement team members in the course of conducting a GAGAS engagement;
  - b. Both the individual seeking consultation and the individual consulted document and agree upon the nature and scope of such consultation; and
  - c. The conclusions resulting from the consultation are documented, understood by both the individual seeking consultation and the individual consulted, and implemented.

# QUALITY CONTROL

## New Requirements Cont'd

4. Para 5.36 requires the audit organization to establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.
5. Para. 5.37 requires the audit organization to assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and to establish policies and procedures requiring the organization to
  - a. Communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and
  - b. Clearly define the responsibilities of the engagement partner or director and communicate them to that individual.

# QUALITY CONTROL

## Monitoring Engagement Quality

Paragraph 5.44 requires the audit organization to analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action.

Paragraph 5.45 requires the audit organization to evaluate the effects of deficiencies noted during the monitoring of the organizations system of quality control to determine and implement appropriate corrective action.

# STANDARDS FOR FINANCIAL AUDITS

## INTERNAL CONTROL

Para. 6.18 requires auditors to consider internal control deficiencies in their evaluation of identified findings when developing the cause element of identified findings.

**Cause** – is the factor or factors responsible for the difference between the condition and the criteria, and may also serve as the basis for recommendations for corrective action. (para. 6.27)

The Green Book – *Standards for Internal Control in the Federal Government—An Integrated Framework* may help auditors identify the cause of findings and help them develop recommendations.

# STANDARDS FOR FINANCIAL AUDITS

## ELEMENTS OF A FINDING

THE ELEMENTS OF A FINDING ARE:

**CONDITION** – The situation that exists

**CRITERIA** – standards for what should be (benchmark use, best practice, laws, regulations, contracts, contract agreements, etc.)

**CAUSE** – the explanation of why the condition deviates, or does not comply (if it does) from the criteria.

**EFFECT** – the actual or potential consequences of allowing the condition to persist.

# INTERNAL CONTROL

## PERFORMANCE AUDITS

Auditors required to document the significance of internal control to their performance audit objectives (para. 8.39). If the answer is NO, then just document that fact. If the answer is YES, then the auditor:

1. Obtains an understanding of internal control that is significant to the audit objectives (para. 8.40);
2. Assesses and documents the assessment of internal control to the extent necessary to address the audit objectives (para 8.49);
3. Evaluates and documents the significance of identified internal control deficiencies within the context of the audit objectives (para. 8.54);
4. Considers internal control deficiencies when developing the cause element of findings (para. 8.117)
5. Identifies in the audit report which internal control components and principles are significant (para. 9.30)

# FRAUD, WASTE AND ABUSE

## DEFINITION OF WASTE

### New Considerations for Addressing Waste

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose.

It can include activities that do not include fraud and abuse and does not necessarily involve a violation of law.

Waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

(See paragraphs 6.21, 7.23 & 8.120)

# FRAUD, WASTE AND ABUSE

## ABUSE

Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements.

Abuse also includes misuse of authority or position for personal financial interests of those of immediate or close family member or business associate.(para. 6.23)

# STANDARDS FOR REVIEWS OF FINANCIAL STATEMENTS

## AUDITOR CONSIDERATIONS

1. The Yellow Book incorporates AR-C, Section 90, *Review of Financial Statements*, for auditors conducting reviews of financial statements in accordance with the Yellow Book. (para. 7.01)
2. The 2011 Yellow Book only incorporated reviews performed under the Statements on Standards for Attestation Engagements (SSAE)
3. SSAE includes reviews of interim financial information in connection with audited financial statements.
4. AR-C, Section 90, *Review of Financial Statements* is more general in nature and is not connected with audited financial statements.

# PERFORMANCE AUDITS

## MANAGEMENT ASSERTIONS

Paragraph 8.14 makes it clear that assertions are not required for performance audits.

# AVAILABILITY OF THE YELLOW BOOK

Where you can locate your copy

AT YOUR FINGER TIPS

GAO's website: [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)

# EFFECTIVE DATE

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- Financial Audits, Attestation Engagements And Reviews of Financial Statements for periods ending on or after June 30, 2020\*
- Performance Audits beginning on or After July 1, 2019
- Early Implementation is NOT permitted.
- Supersedes the 2011 revision that was issued December 2011

\*(For engagements with fiscal year ended September 30<sup>th</sup> - 10/1/2019 – 9/30/2020 and for entities with a June 30<sup>th</sup> year end - 7/1/2019 – 6/30/2020)

# QUESTIONS

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# Contact Information

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