



---

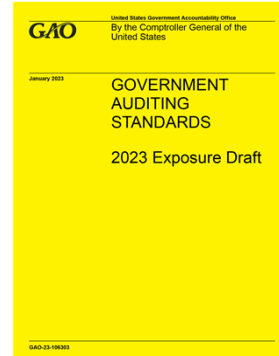
## GAO Standards Update

---

**2023 Yellow Book Exposure Draft**

**CIGIE Quality Assurance Working Group**

**March 30, 2023**



U.S. GOVERNMENT ACCOUNTABILITY OFFICE



---

## DISCLAIMER

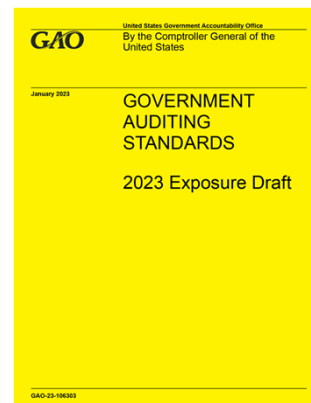
---

**The views expressed during this presentation are solely those of the presenters and do not necessarily reflect GAO's official position.**



## Session Objectives

- Compare quality control and quality management
- Provide an overview on proposed revisions in the 2023 Yellow Book Exposure Draft



3



## 2023 Yellow Book Exposure Draft



- GAO has issued a proposed update to Chapter 5, *Quality Control and Peer Review*, and additional application guidance for Chapter 6, *Standards for Financial Audits*
- The Exposure Draft can be found at [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)
- Comments will be accepted through April 28, 2023

4



## Why Update Quality Standards?

Global concern about audit quality, including:

- Lack of consistency in engagement performance
- Poor audit quality for infrequent issuers of audit and attest reports
- Reliance on generic quality control resources
- Challenges experienced by small audit organizations
- Need to upgrade audit organization governance and leadership responsibilities for quality

Page 5



## Quality Management Projects of Other Standard-Setters

### IAASB

- Exposure: Feb. 2019
- Final: Dec. 2020
- Effective: Dec. 2022

### AICPA

- Exposure: Feb. 2021
- Final: June 2022
- Effective: Dec. 2025

### PCAOB

- Exposure: Nov. 2022
- Final: TBD
- Effective: TBD



Page 6



---

## Quality Standards and GAGAS

---

- GAGAS incorporates by reference AICPA's Statements on Auditing Standards and Statements on Standards for Attestation Engagements
- GAGAS does not incorporate by reference quality control or quality management standards of AICPA or IAASB
- Government audit organizations are subject to the quality control and assurance requirements of *Government Auditing Standards*
- Firms that perform GAGAS engagements follow both the extant AICPA and GAGAS quality control requirements
- GAO's approach is to promote convergence of *Government Auditing Standards* with AICPA quality standards where practicable



### Overview

## QUALITY CONTROL AND QUALITY MANAGEMENT



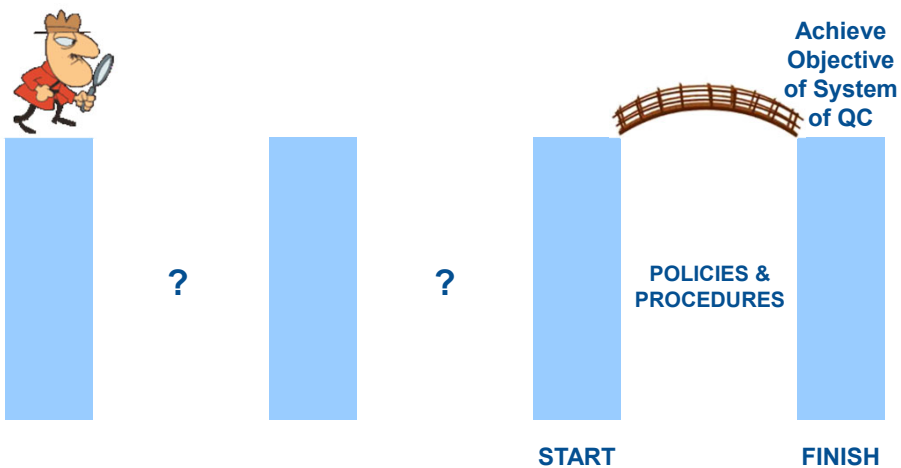
## Objective of a System of Quality Management

**5.02** 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 the audit organization and its personnel

- a. fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
- b. perform and report on engagements in accordance with such standards and requirements.

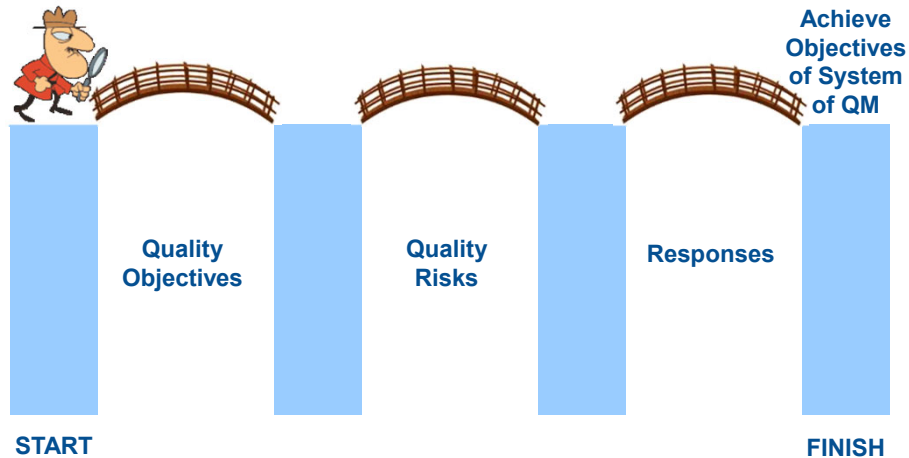


## Extant Quality Control Process





## Proposed Quality Management Process



11



## Quality Control or Quality Management?

### Quality Control

- Requires specific policies and procedures that apply to all audit organizations
- Focus of audit organization is to comply with quality control requirements

### Quality Management

- Management customizes system of quality management based on nature of the audit organization
- Focus is on areas of highest quality risk, with emphasis on remediation and continuous improvement

Page 12



## Overview

# PROPOSED REVISION TO GOVERNMENT AUDITING STANDARDS

---

Page 13



## Emphasizes Responsibility of Leadership

---

### 5.13 The audit organization should assign

- a. responsibility and accountability for the system of quality management to a senior-level official within the audit organization and
- b. operational responsibility for the system of quality management or specific aspects of the system of quality management to a specific individual or individuals.

---

Page 14



## Two New Components

### Extant GAGAS

- Leadership Responsibilities
- Independence, Legal, and Ethical Requirements
- Initiation, Acceptance, and Continuance of Engagements
- Engagement Performance
- Human Resources
- Monitoring of Quality

### Proposed GAGAS

- Governance and Leadership
- Independence, Legal, and Ethical Requirements
- Acceptance, Initiation, and Continuance of Engagements
- Engagement Performance
- Resources
- Monitoring and Remediation Process
- Information and Communication (new)
- Quality Management Risk Assessment Process (new)



## Quality Management Risk Assessment Process

**5.19** 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.

**5.23** The audit organization should identify, analyze, and respond to changes in the nature and circumstances of the audit organization or its engagements that could impact the quality objectives, quality risks, or responses to address quality risks.



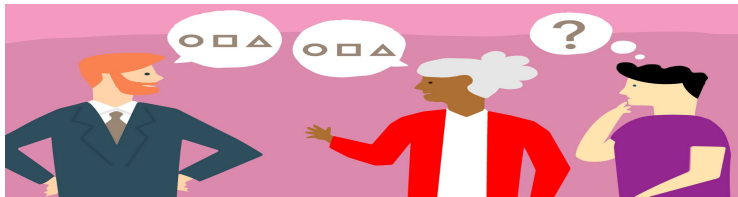


## Definitions

**Quality objectives:** The desired outcomes in relation to the components of the system of quality management.

**Quality risks:** Risks that have a reasonable possibility of occurring and adversely affecting the achievement of one or more quality objectives.

**Responses:** Policies or procedures that the audit organization designs and implements to address one or more quality risks.



Page 17



## Components with Specified Quality Objectives



- Governance and Leadership
- Independence, Legal, and Ethical Requirements
- Acceptance, Initiation, and Continuance of Engagements
- Engagement Performance
- Resources
- Information and Communication

Page 18



---

## Examples of Quality Objectives: Governance and Leadership

---

- The audit organization demonstrates a commitment to quality through a culture that exists throughout the audit organization.
- Resource needs are planned for, obtained, allocated, and assigned in a manner consistent with the audit organization's commitment to quality.

---

Page 19



---

## Examples of Quality Objectives: Independence, Legal, and Ethical Requirements

---

The audit organization and its personnel understand and fulfill their responsibilities in relation to the independence and applicable legal and ethical requirements to which the audit organization and its personnel are subject.



---

Page 20



---

## Examples of Quality Objectives: Acceptance, Initiation, and Continuance of Engagements

---

The audit organization accepts, initiates, and continues engagements only if it

- a. complies with professional standards, independence requirements, and applicable legal and ethical requirements;
- b. acts within its legal mandate or authority; and
- c. has the capabilities, including time and resources, to do so.

**ACCEPTED**

---

Page 21



---

## Examples of Quality Objectives: Engagement Performance

---

- Engagement teams exercise appropriate professional judgment, which includes exercising reasonable care and professional skepticism.
- Consultation on significant matters is undertaken, especially for difficult or contentious matters, and the conclusions agreed to are implemented and, as appropriate, documented.
- Engagement documentation is assembled on a timely basis and is appropriately maintained and retained to meet the needs of the audit organization and comply with professional standards; independence requirements; and applicable legal and ethical requirements.

---

Page 22



---

## Examples of Quality Objectives: Resources

---

- Personnel are hired, developed, and retained who have the competence and capabilities to consistently perform quality engagements and carry out responsibilities related to the operation of the audit organization's system of quality management.
- Appropriate technological and intellectual resources are obtained or developed, implemented, maintained, and used to enable the operation of the audit organization's system of quality management and the performance of engagements.

---

Page 23

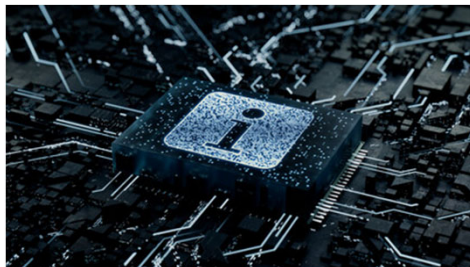


---

## Examples of Quality Objectives: Information and Communication

---

- The audit organization's information system identifies, captures, processes, and maintains relevant and reliable information that supports the system of quality management.



---

Page 24



---

## Responses

---

- Responses are primarily identified by audit organizations as part of the risk assessment process
- There are limited responses required by the Yellow Book. These pertain to:
  - Independence, legal, and ethical requirements
  - Engagement performance



---

Page 25



---

## Monitoring and Remediation Process

---

- **5.84** The audit organization should establish a process to monitor the design, implementation, and operation of the system of quality management to provide a basis for identifying deficiencies and remediating them on a timely basis.



---

Page 26



---

## Enhanced Emphasis on Remediation

---

- The proposed revision requires an audit organization to identify, evaluate, and respond to quality management deficiencies to address the underlying causes of those deficiencies. (5.105, 5.112, 5.116)
- An audit organization should further evaluate remedial actions to determine if they are effective. (5.117-5.118)



---

Page 27



---

## Evaluating the System of Quality Management

---

**5.126** The senior-level official assigned responsibility and accountability for the audit organization's system of quality management should evaluate the system of quality management at least annually.



---

Page 28



## Engagement Quality Reviews

- Engagement Quality Reviews (EQRs): not solely for financial audits!
- Yellow Book does not require audit organizations to use EQR as a response to address quality risk(s). However, an audit organization does have to determine if they are an appropriate response (5.53e and 5.53f).
- If EQR is an appropriate response to quality risk(s), there is a separate section in Chapter 5 with requirements and guidance for performing one (5.137-5.150)

Page 29



## Scalability

- Since a system of quality management is tailored to each audit organization, it is designed to be inherently scalable
- Specific scalability considerations are in a few application guidance paragraphs (5.11-5.12, 5.83)



Page 30



---

## Flexibility for Audit Organizations Subject to Other Quality Management Standards

---

- If an audit organization is subject to AICPA or IAASB quality management standards, they follow those requirements and specific additional Yellow Book requirements (5.07)



---

Page 31



---

## Key Audit Matters

---

- Revised AICPA reporting standards for financial audits, incorporated by reference into the Yellow Book, introduced key audit matters (KAMs)
- Proposed revision adds application guidance clarify when KAMs might apply for Yellow Book financial audits (6.39)



---

Page 32





## Proposed Effective Date

---

- The proposed effective date would require quality management systems to be designed and implemented within 2 years from issuance of the final revision
- The first evaluation of the system of quality management would be required within 1 additional year (3 years from the issuance of the final revision)
- Early adoption of the proposed revision would be permitted

---

Page 33



## Next Steps



---

Page 34



## The Yellow Book Revision Process

---

 January 30 – April 28, 2023: Exposure Draft Period

 Summer 2023: Staff Analysis and Revision

 Fall 2023: Yellow Book Advisory Council Meeting

 TBD: Final Yellow Book Issuance

---

Page 35



## We Want Your Comments

---



---

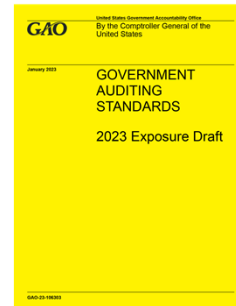
3/23/2023

Page 36



## Where to Find the Yellow Book

- The Yellow Book Exposure Draft is available on GAO's website at: [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)
- Please send your Exposure Draft comments to: [YellowBookComments@gao.gov](mailto:YellowBookComments@gao.gov)
- For technical assistance, contact us at: [yellowbook@gao.gov](mailto:yellowbook@gao.gov) or call (202) 512-9535
- To subscribe to GAO Standards News, send an email with the subject "Subscribe" to [TheStandardsTeam@gao.gov](mailto:TheStandardsTeam@gao.gov)

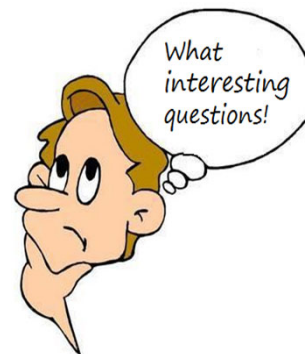


37



## Thank You

Questions?



38