

# Sneak Preview: Green Book Exposure Draft Featured Presentation: 2024 Yellow Book

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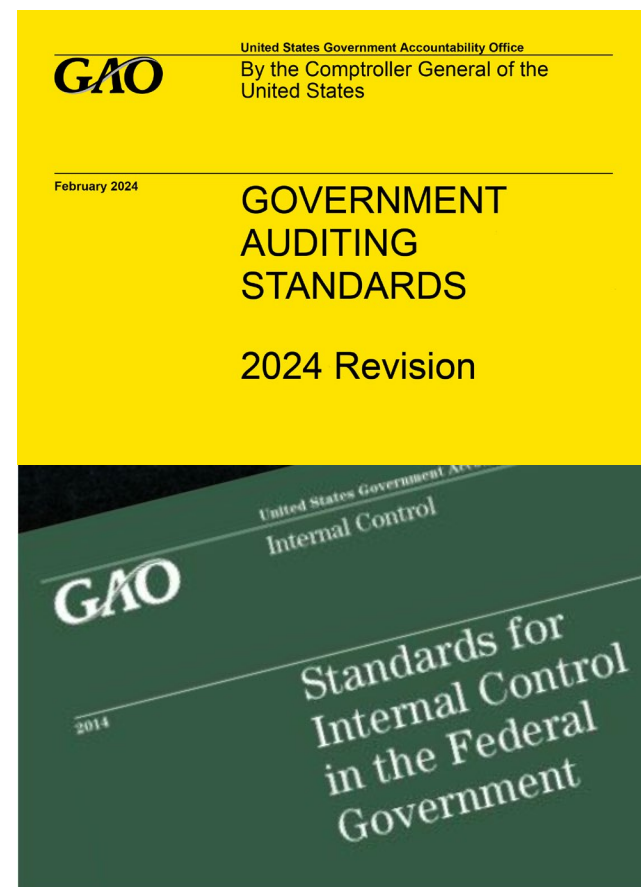
**2024 CIGIE / GAO  
Financial Statement  
Audit Conference**

**June 6, 2024**



# Session Objectives

- Discuss objectives of forthcoming Green Book exposure draft
- Highlight significant changes in the 2024 Yellow Book





**COMING  
SOON**

**STANDARDS FOR INTERNAL CONTROL  
IN THE FEDERAL GOVERNMENT  
2024 EXPOSURE DRAFT**

## Why is the Green Book Being Updated?

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- *Standards for Internal Control in the Federal Government* (known as the Green Book) was last revised in 2014
- Recent events such as pandemics and cyber-attacks highlighted the challenges management faces when addressing risks related to
  - fraud, improper payments, information security, and
  - the implementation of new or substantially changed programs, including emergency assistance programs

## Green Book Revision - Objective

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- Provide additional requirements, guidance, and resources for addressing risks related to fraud, improper payments, information security, and implementation of emergency assistance programs
- Continue harmonizing with COSO Internal Control – Integrated Framework.
- Make other modifications to clarify the intent of requirements.

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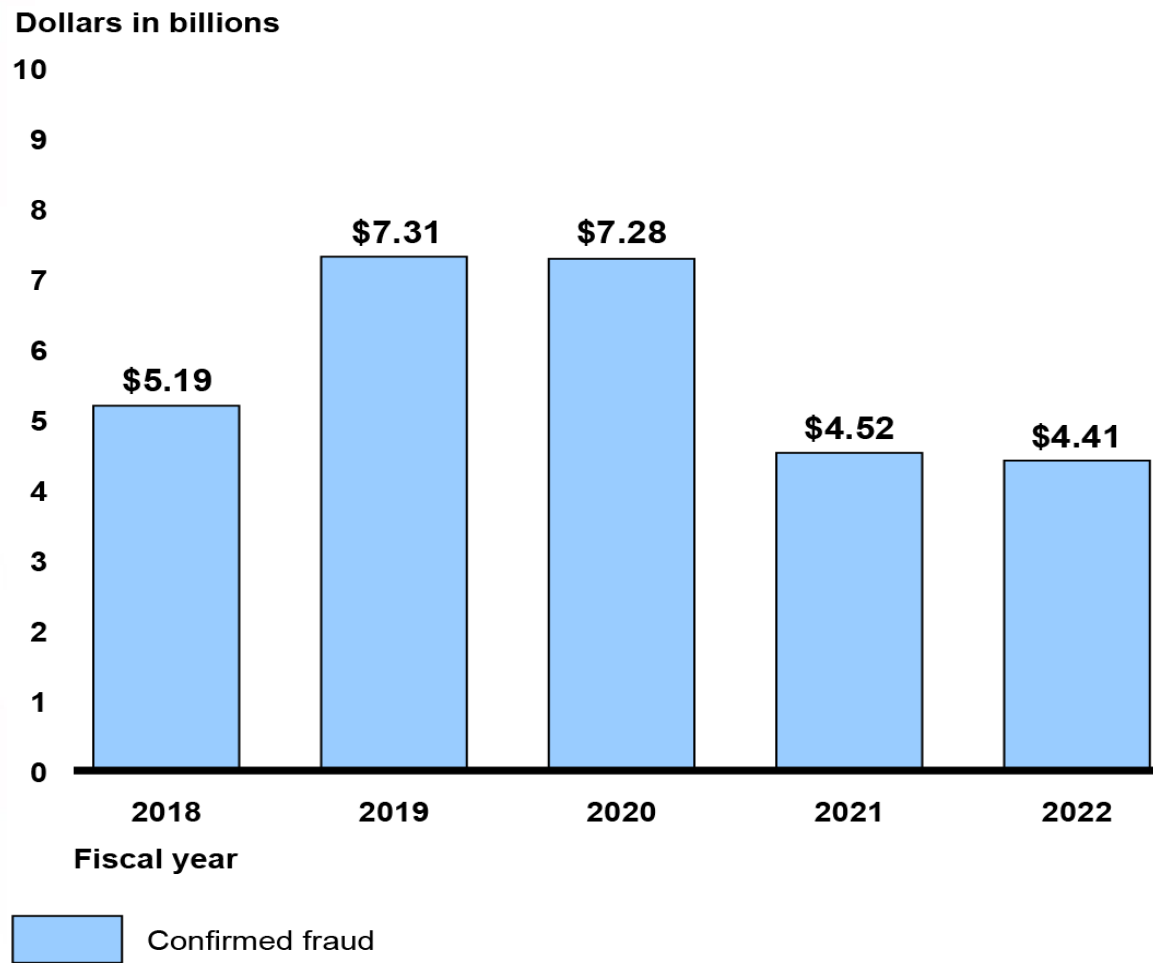
# Green Book Revision – Proposed Key Changes

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Key changes proposed for the 2024 Exposure Draft

1. Fraud, Improper Payments, and Information Security Risks
2. Emergency Assistance Programs
3. Responsibility for Internal Control
4. Prioritize Preventive Control Activities
5. Information Technology Control Activities
6. Collaboration with External Parties

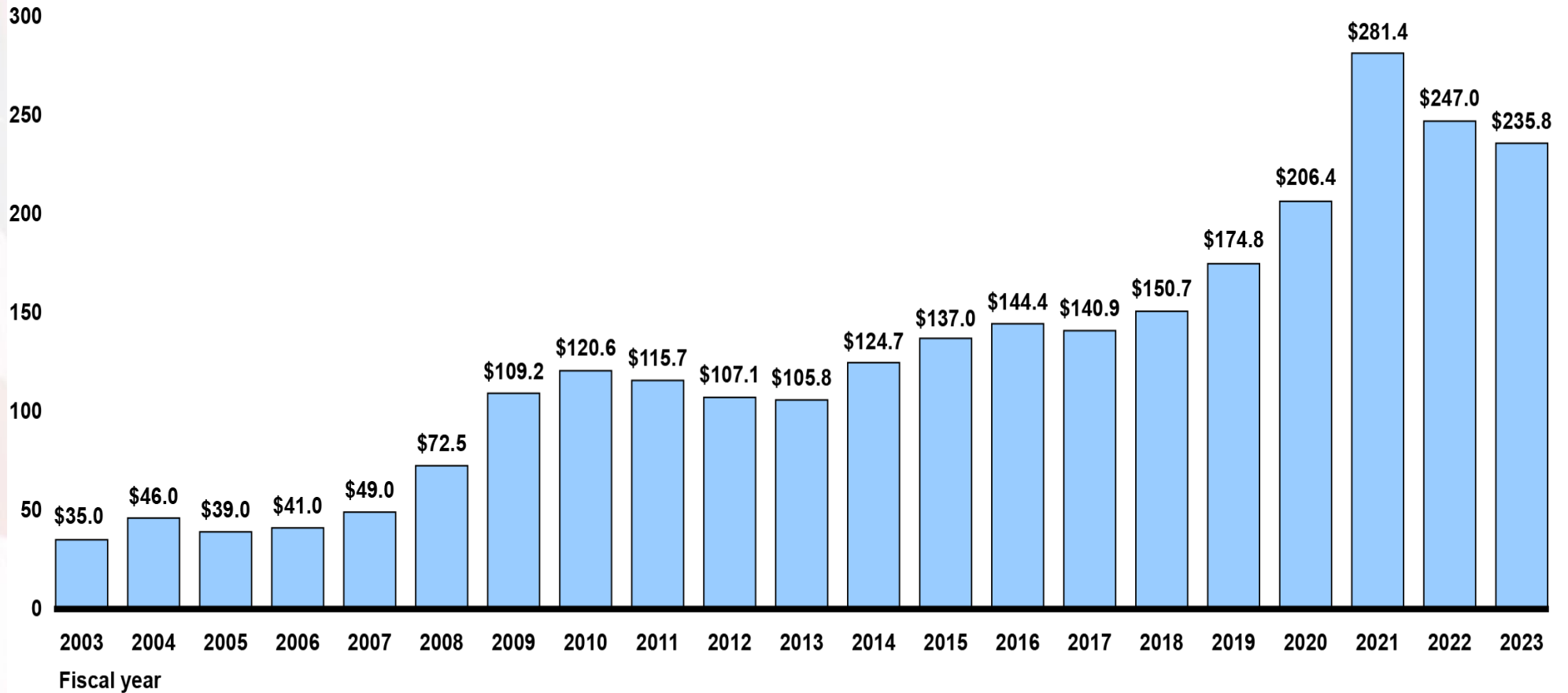
# Why Fraud?



Source: GAO analysis of Office of Management and Budget data from [Paymentaccuracy.gov](https://www.paymentaccuracy.gov). | GAO-24-105833

# Why Improper Payments?

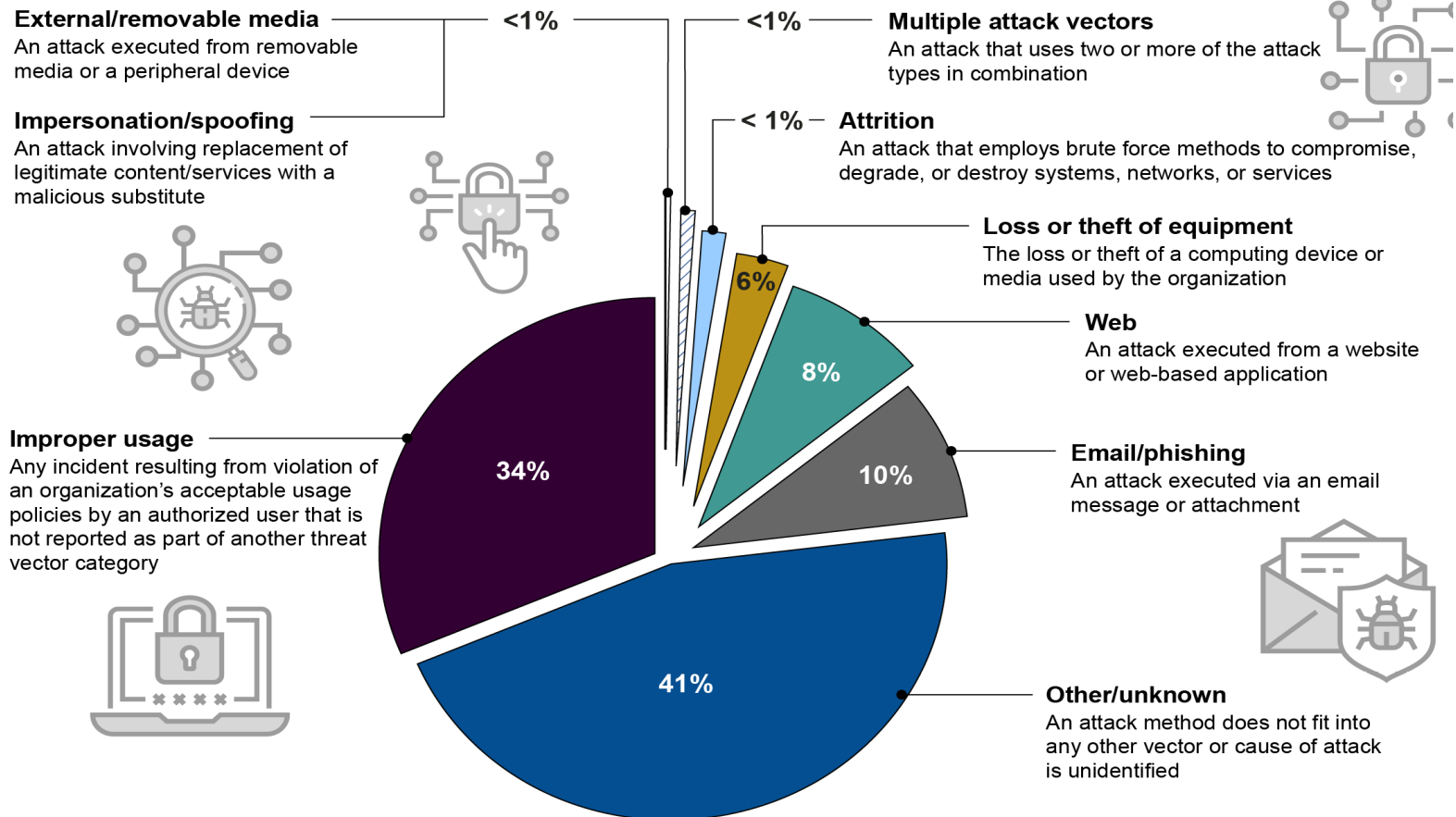
Dollars in billions



Source: GAO. | GAO-24-106927

# Why Information Security?

## Federal agencies reported 30,659 information security incidents in fiscal year 2022



Sources: United States Computer Emergency Readiness Team (data); lovemask/stock.adobe.com (icons). | GAO-24-106291

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# Fraud, Improper Payments, and Information Security Risks

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Addressing Fraud, Improper Payments (IP), and Information Security (IS) Risks:

- Requirement to consider IP and IS risks
- New documentation requirement
- Resources in new Appendix III



# Why Emergency Assistance Programs?

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- Present significant challenges to entities that must distribute emergency relief funds
- Increased risk for fraud and improper payments
- Many agencies did not develop effective internal controls to manage and oversee the distribution of emergency funds



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# Emergency Assistance Programs

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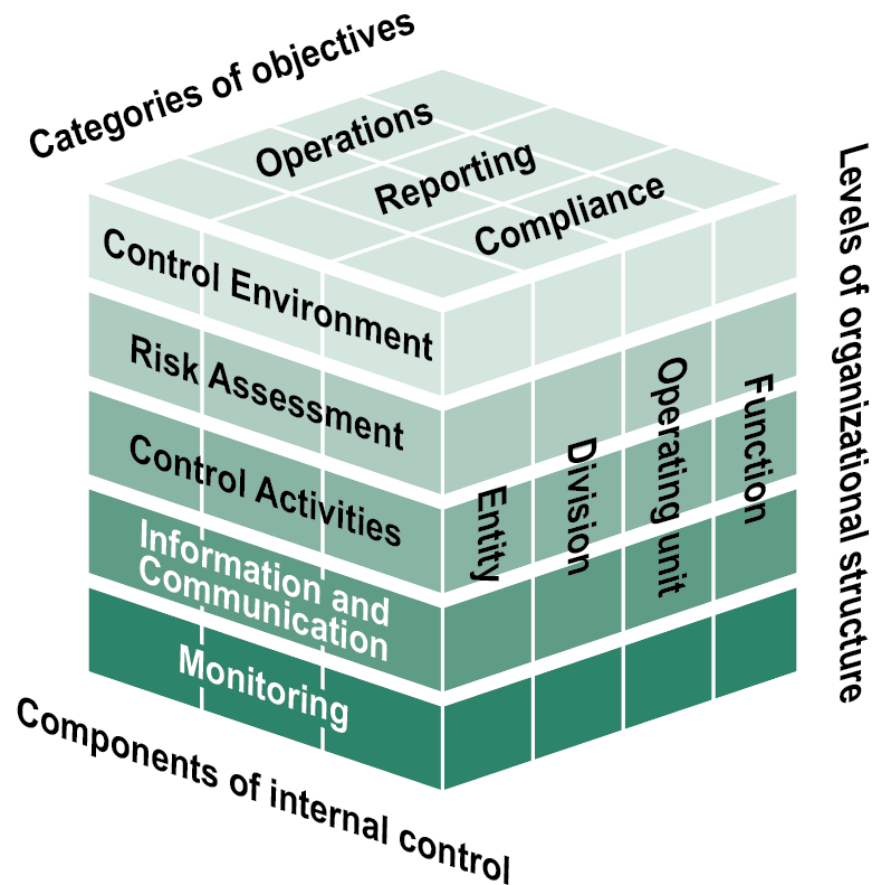
Addressing risks related to Emergency Assistance Programs:

- Application guidance for analyzing and responding to potential changes
- New documentation requirement



# Who's Responsible for Internal Control?

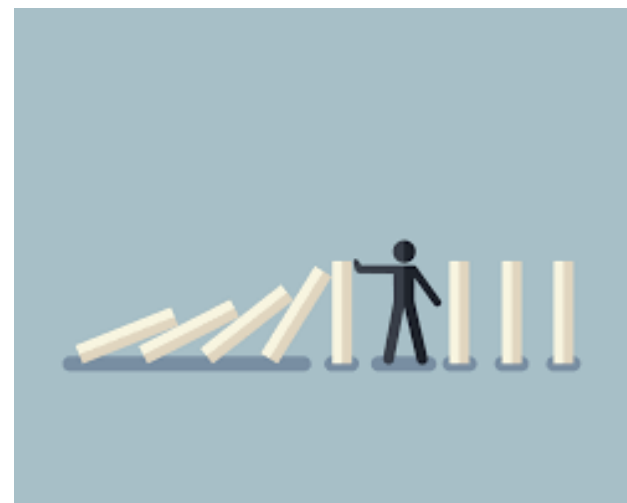
Management at all levels and within all functions in the entity's organizational structure, including program and financial managers



## Why Preventive Controls?

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- Offer the most cost-efficient use of resources
- Avoid a difficult and expensive “pay and chase model”
- Proposed update:
  - Emphasizes prioritizing preventive control activities
  - Provides examples in new Appendix II



## Information Technology Control Activities

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- Adds a section in the overview to introduce IT and discuss its pervasive nature in entities' internal control processes
- Modified and reorganized the discussion of automated control activities and general controls over IT in the control activities component



## Collaboration with External Parties

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- Expands the discussion of external parties, which includes service organizations and other external parties that interact with the entity (including those that receive federal awards, such as grants)
- Adds examples of control activities that management establishes to fulfill its oversight responsibility
- Expands discussion on processes to communicate necessary information with appropriate external parties

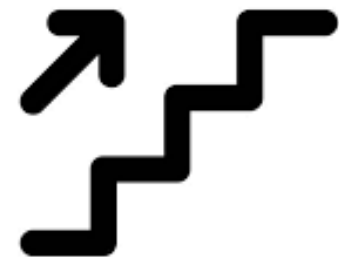


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## Green Book Revision – Next Steps

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- Plan to issue the exposure draft for public comment by June 30
- Plan to issue final Green Book revision in late 2024
- Planned effective date October 1, 2025



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## Where to Find the Green Book

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- The Green Book (and 2024 Exposure Draft when published) can be found at:  
[www.gao.gov/greenbook](http://www.gao.gov/greenbook)
- To subscribe to GAO Standards News, send an email with the subject “Subscribe” to  
[TheStandardsTeam@gao.gov](mailto:TheStandardsTeam@gao.gov)
- For technical assistance, contact us at:  
[greenbook@gao.gov](mailto:greenbook@gao.gov) or call (202) 512-9535



# GOVERNMENT AUDITING STANDARDS 2024 REVISION



## 2024 Yellow Book

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- In January 2023, GAO proposed to update Chapter 5, *Quality Control and Peer Review*, and add application guidance for Chapter 6, *Standards for Financial Audits*
- GAO received 43 comment letters with over 600 individual comments during the exposure period.
- GAO issued the 2024 revision of the Yellow Book on February 1, 2024

## Objective of a System of Quality Management

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**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.

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## Responsibility of Leadership

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- 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.

# Two New Components

## 2018 GAGAS

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

## 2024 GAGAS

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

## Quality Management Risk Assessment Process

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**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.

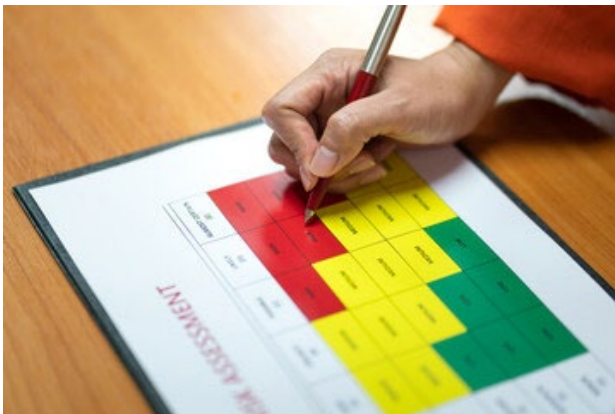


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# Frequency of Quality Management Risk Assessment Process

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- Provided application guidance and examples concerning the frequency of performing the quality management risk assessment process
  - Specific periodic intervals
  - In response to deficiencies in the system of quality management
  - To respond to changes in the nature & circumstances of the audit organization and its engagements



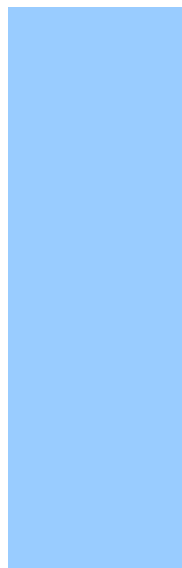
(Paras. 5.25 – 5.27)

# Quality Control Process

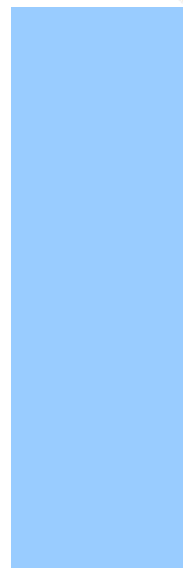
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START



**POLICIES &  
PROCEDURES**

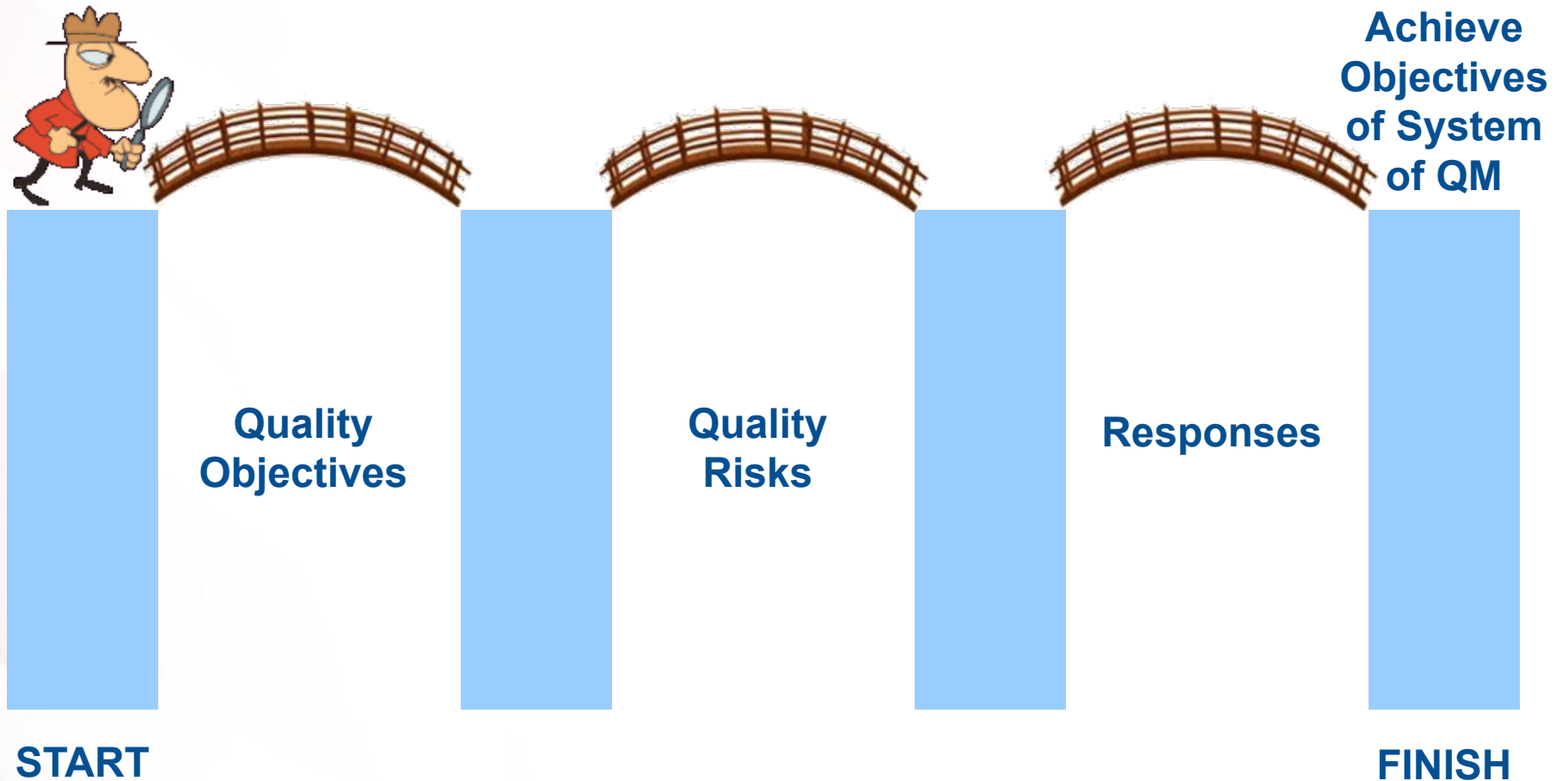
**Achieve  
Objective  
of System  
of QC**



FINISH

# Quality Management Process

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## Scalability

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- Since a system of quality management is tailored to each audit organization, it is designed to be inherently scalable
- Specific scalability considerations are in application guidance paragraphs (e.g., paras. 5.12, 5.86)



## Monitoring and Remediation Process

- **5.87** 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.



## Emphasis on Remediating QM Deficiencies

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- The 2024 revision requires an audit organization to identify, evaluate, and respond to quality management deficiencies to address the underlying causes of those deficiencies.
- An audit organization should further evaluate remedial actions to determine if they are effective.

(paras. 5.109-5.121)



## Evaluating the System of Quality Management

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**5.128** The senior-level official assigned responsibility and accountability for the audit organization's system of quality management should evaluate the system of quality management. The evaluation should be taken as of a point in time and performed at least annually.



## Documentation Requirements

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- Documentation of the system of quality management should support personnel's understanding of the system and provide evidence of design, implementation, and operation of the system
- Minimum documentation requirements are included, and documentation should be retained for a period sufficient to permit monitoring and remediation activities and peer review



(paras. 5.132-5.134)

# Engagement Quality Reviews

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- 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 is required to determine if they are an appropriate response (para. 5.55e)
- If EQR is an appropriate response to address quality risk(s), there is a separate section in Chapter 5 with requirements and guidance for performing one (paras. 5.139-5.154)

## Engagement Quality Reviews (cont.)

- Clarified links between EQR requirements and requirements for specific types of GAGAS engagements
- Added application guidance with examples of significant judgments and conclusions (para. 5.150)



## Other Changes

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- Application guidance added to chapter 6 to clarify when key audit matters might apply for Yellow Book financial audits (6.39)
- Conforming edits throughout to update terminology
- Updated footnotes and references to external standards



## 2024 Yellow Book Effective Date

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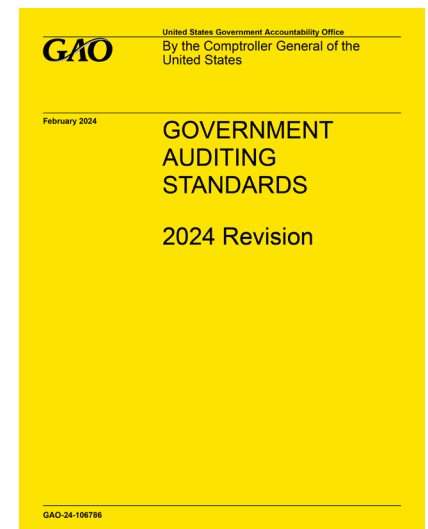
- Effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025
- Effective for performance audits beginning on or after December 15, 2025
- A system of quality management that complies with the Yellow Book is required to be designed and implemented by December 15, 2025
- The first evaluation of the system of quality management would be required by December 15, 2026
- Early implementation is permitted

## Where to Find the Yellow Book

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- The 2024 Yellow Book is available on GAO's website at:  
[www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)

- For technical assistance, contact us at:  
[yellowbook@gao.gov](mailto:yellowbook@gao.gov) or call (202) 512-9535



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**Questions?**

# Thank You

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