



G A O

Accountability * Integrity * Reliability

Comptroller General
of the United States

United States General Accounting Office
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David M. Walker, Comptroller General of the United States and head of the U.S. General Accounting office (GAO), today announced release of a new edition of *Government Auditing Standards*, commonly referred to as the Yellow Book. Government auditing is a key element in fulfilling the government's duty to be accountable to the people. Auditing allows those parties and other stakeholders to have confidence in the reported information on the results of programs or operations, as well as in the related systems of internal control. Government auditing standards provide a framework to auditors so that their work can lead to improved government management, decision-making, oversight and accountability. They also provide guidance for ensuring that auditors have the competence, integrity, objectivity, and independence in planning, conducting, and reporting on their work.

This is the fourth revision of the overall standards since they were first issued in 1972. This revision of the standards supersedes the 1994 revision, including amendments 1 through 3. This revision makes changes to these standards in the following 3 areas:

- redefining the types of audits and services covered by the standards, including an expansion of the definition of performance auditing to incorporate prospective analyses and other studies and adding attestation as a separate type of audit,
- providing consistency in the field work and reporting requirements among all types of audits defined under the standards, and
- strengthening the standards and clarifying the language in areas that, by themselves, do not warrant a separate amendment to the standards.

In releasing these standards, the Comptroller General emphasized that "auditors will face many situations in which they could best serve the public by doing work exceeding the standards' minimum requirements. As performance and accountability professionals, we should not strive just to comply with minimum standards, which represent the floor of acceptable behavior, but we need to do the right thing according to the facts and circumstances of each audit situation." He called on auditors to seek opportunities to do additional work when and where it is appropriate, particularly in connection with testing and reporting on internal control.

Revisions to the new edition of *Government Auditing Standards* have gone through an extensive deliberative process including extensive public comments and input from the Comptroller General's Advisory Council on Government Auditing Standards. The council includes 20 experts in financial and performance auditing and reporting drawn from all levels of government, academia, private enterprise, and public accounting.

New standards are applicable for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004. Early application is permissible and encouraged.

Government Auditing Standards incorporates the field work and reporting standards issued by the AICPA. The new Public Company Accounting Oversight Board (PCAOB), established by the Sarbanes-Oxley Act, promulgates standards for public accounting firms in audits of publicly traded companies. GAO will continue to monitor the actions of the AICPA and PCAOB and will issue clarifying guidance as appropriate.

Government Auditing Standards is available on the GAO Web site at www.gao.gov/govaud/ybk01.htm. Printed copies can be obtained from the U.S. Government Printing Office. Also posted on the Web site is a list of major changes from the 1994 edition.

**Listing of Major Changes
Between the 1994 Yellow Book
(including amendments 1-3)
and the 2003 Yellow Book Revision**

- Define the types of audits and the applicable standards
 - Defines financial audits to include financial statement audits and other services covered by the AICPA's *Statement on Auditing Standards*
 - Expressly incorporates attestation engagements as services performed under the AICPA's Attestation Standards and the related *Statement on Standards for Attestation Engagements* and spelled out the additional field work and reporting standards for compliance with GAGAS
 - Eliminates the term "financial related audits"
 - Expands the definition of performance audits to include objectives of effectiveness, economy and efficiency, internal control, and compliance
 - Recognizes that performance audit standards are also applicable to prospective analyses, guidance, or summary information
 - Clarifies that for some audit objectives, there may be overlap between the types of audits and attestation engagements, and in these cases, auditors should consider users' needs and the auditors' knowledge, skills, and experience in deciding which standards to follow

- Consistent application of GAGAS where applicable
 - Extends the requirements of Amendment No. 1, requiring documentation of decisions related to internal control over data significantly dependent on computerized information systems and Amendment No. 2, Auditor Communication to both attestation engagements and performance audits
 - Clarifies that auditors are required to report findings on internal control and compliance on attestation engagements and performance audits
 - Clarifies that auditors are required to report on internal control and compliance when they disclaim on the financial statements

- Additions to strengthen standards and clarify language
 - Requires auditors, in applying professional judgment, to exercise professional skepticism and perform their work with integrity
 - Requires that audit organizations have a process for recruitment, hiring, continuous development, and evaluation of staff
 - Requires that auditors collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on the assignment
 - Explicitly states that auditors should have knowledge of GAGAS applicable to the work they are assigned and knowledge of the specific environment in which the audited entity operates and the subject matter under review
 - Requires that auditors be proficient in the AICPA *Statements on Standards for Attestation Engagements* when performing attestation engagements and that nongovernment auditors be licensed CPAs or work for a licensed CPA firm if engaged to perform an attestation engagement

- Clarifies that continuing professional education and training (CPE) should directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements
- Clarifies that external and internal specialists should be qualified and maintain professional competence in their areas of specialization, but are not required to meet the CPE requirements of GAGAS. Also auditors who use the work of specialists should document that the specialists are qualified in their areas of specialization.
- Requires that the internal quality control system include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied
- Requires that an audit organization prepare documentation to demonstrate compliance with its policies and procedures for its system of quality control
- Clarifies the external peer review timeframes and that extensions of these timeframes beyond 3 months can only be granted by GAO and should only be requested for extraordinary circumstances
- Requires that each peer review team member have knowledge on how to perform a peer review
- Expands what is included in the peer review report
- Requires auditors to transmit their peer review reports, including the letter of comment, to appropriate oversight bodies and provide a copy of their peer review reports to auditors using their work
- Incorporates the AICPA's general standard on criteria for attestation engagements
- Requires documentation when applicable standards are not followed
- Requires that documentation to support findings, conclusions, and recommendations be available before auditors issue their report
- Requires that audit organizations adequately safeguard audit/attest documentation and develop policies and criteria to deal with situations where requests are made by outside parties to obtain access to audit/attest documentation
- Clarifies the definition of abuse and the auditors' responsibility for field work and reporting of abuse
- Recognizes that auditors may need to exclude reporting certain sensitive information from publicly available reports
- Clarifies that performance audit reports should be appropriate for the intended use and can be in any retrievable form
- Recognizes that oral agency comments can be as acceptable as written comments
- Reorganizes the order and presentation of the standards to provide a more logical grouping of the standards by function, such as planning, audit documentation, and report content
- Clarifies language throughout the standards