PacificCPE

COURSE
11351A

Yellow Book: Foundation, Ethics, and Independence

Get grounded in the essentials of Government Auditing Standards (GAGAS) with this introductory course. You'll explore who uses the Yellow Book, what types of engagements it covers, and how its unique terminology and format work in practice. The course then walks through compliance requirements and how GAGAS relates to other professional standards. It wraps up with a focused look at ethical principles, independence requirements, and the role of professional judgment in government audit engagements.

CREDIT HOURS 2 | FIELD OF STUDY AUDITING | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize different types of attestation engagements.
- Identify factors to consider when determining the type of compliance statement to be issued.
- Identify ethical principles that guide an auditor's performance.
- Recall threats to independence and how the threats are evaluated and mitigated.

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INTRODUCTION

Government auditing provides the objective analysis and information needed to help improve government performance and accountability for the benefit of the American people. The professional standards presented in Government Auditing Standards 2024 Revision provide a framework for performing high- quality audit work with competence, integrity, objectivity, and independence. Such performance provides accountability and helps improve government operations and services. These standards, commonly referred to as generally accepted government auditing standards (GAGAS), provide the foundation for government auditors to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.

The 2024 revision of Government Auditing Standards contains major changes from, and supersedes, Government Auditing Standards 2018 Revision Technical Update April 2021. Chapter 2 of course 11352C, "Quality Management, Engagement Quality Reviews, and Peer Review," in the 2024 revision replaces Chapter 2 of course 11352C, "Quality Control and Peer Review," in the 2018 revision. In addition, application guidance is added to Chapter 1 of course 11353C, "Standards for Financial Audits," in this 2024 revision.

Enhancements that strengthen an audit organization's framework for conducting high-quality government audits through itssystemofquality management are reflected in the2024 revision ofGovernmentAuditing Standards. An effective system of quality management provides an audit organization with reasonable assurance that it and its personnel fulfill their responsibilities in accordance with professional standards and perform and report on engagements in accordance with such standards and *requirements.*

This revision emphasizes the responsibility of an audit organization's leadership for proactively managing quality on its engagements and requires a quality management risk assessment process for designing, implementing, and operating its system of quality management. The 2024 revision also considers that the nature, extent, and formality of an audit organization's system of quality management will vary based on its circumstances. These include its size, its number of offices and geographic dispersion, the knowledge and experience of its personnel, the nature and complexity of its engagement work, and cost-benefit considerations.

Other changes in this 2024 revision include the following:

- A change in approach from quality control to quality management.
- A flexible approach for an audit organization that is required to use both GAGAS quality management standards for GAGAS engagements and the quality management standards of other standard setters for non-GAGAS engagements. This approach will avoid the

potential burden of an audit organization designing, implementing and operating two different systems of quality management.

- Promotion of proactive and effective monitoring activities and increased emphasis on tailoring monitoring activities. These will provide a sufficient basis for the audit organization's evaluation of the system of quality management.
- Provisions for the use of optional engagement quality reviews to address quality risks to achieving quality objectives.
- Application guidance on key audit matters for when this may apply to financial audits of government entities and entities that receive government financial assistance.

The 2024 revision of Government Auditing Standards has gone through an extensive deliberative process, including public comments and input from the Comptroller General's Advisory Council on Government Auditing Standards. The Advisory Council consists of experts in financial and performance auditing and reporting from federal, state, and local government; the private sector; and academia. The views of all parties were thoroughly considered in finalizing the standards.

Government Auditing Standards 2024 Revision is effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025. A system of quality management that complies with GovernmentAuditing Standards is required to be designed and implemented by December 15, 2025. An audit organization should complete its evaluation of the system of quality management by December 15, 2026. Early implementation is permitted.

Abbreviations	
AICPA	American Institute of Certified Public Accountants
AR-C	AICPA Codification of Statements on Standards for Accounting and Review Services
AT-C	AICPA Codification of Statements on Standards for Attestation Engagements
AU-C	AICPA Codification of Statements on Auditing Standards
CPA	certified public accountant
CPE	continuing professional education
GAGAS	generally accepted government auditing standards
IAASB	International Auditing and Assurance Standards Board
IT	information technology
OMB	Office of Management and Budget
PCAOB	Public Company Accounting Oversight Board
SAS	Statements on Auditing Standards
SSAE	Statements on Standards for Attestation Engagements

Chapter 1: FOUNDATION AND PRINCIPLES FOR THE USE AND APPLICATION OF GOVERNMENT AUDITING STANDARDS

Chapter Objective

After completing this chapter, you should be able to:

- Recognize different types of attestation engagements.

I. INTRODUCTION

1.01 This chapter provides guidance for engagements conducted in accordance with generally accepted government auditing standards (GAGAS). This chapter also

a. Explains the types of auditors and audit organizations that may employ GAGAS to conduct their work,

b. Identifies the types of engagements that may be conducted in accordance with GAGAS, and

c. Explains terminology that is commonly used in GAGAS.

1.02 The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.

1.03 As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.

1.04 "Those charged with governance" refers to the individuals responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit, including related internal controls. Those charged with governance may also be part of the entity's management. In some audited entities, multiple parties may be charged with governance, including

oversight bodies, members or staff of legislative committees, boards of directors, audit committees, or parties contracting for the engagement.

1.05 Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. GAGAS engagements provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the engagement.

1.06 The professional standards and guidance contained in this document provide a framework for conducting high-quality engagements with competence, integrity, objectivity, and independence. Auditors of government entities, entities that receive government awards, and other entities, as required by law or regulation or as they elect, may use these standards. Overall, GAGAS contains standards for engagements comprising individual requirements that are identified by terminology as discussed in paragraphs 2.02 through 2.10. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality management, peer review, conducting the engagement, and reporting.

1.07 Engagements conducted in accordance with GAGAS provide information used for oversight, accountability, transparency, and improvements of government programs and operations. GAGAS contains requirements and guidance to assist auditors in objectively obtaining and evaluating sufficient, appropriate evidence and reporting the results. When auditors conduct their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability and transparency for resources and results.

1.08 Laws, regulations, contracts, grant agreements, and policies frequently require that engagements be conducted in accordance with GAGAS. In addition, many auditors and audit organizations voluntarily choose to conduct their work in accordance with GAGAS. The requirements and guidance in GAGAS in totality apply to engagements pertaining to government entities, programs, activities, and functions, and to government assistance administered by contractors, nonprofit entities, and other nongovernmental entities when the use of GAGAS is required or voluntarily adopted.

1.09 The following are some of the laws, regulations, and other authoritative sources that require the use of GAGAS:

a. The Inspector General Act of 1978, as amended (5 U.S.C.App.), requires that the federal inspectors general appointed under that act comply with GAGAS for audits of federal establishments, organizations, programs, activities, and functions. The act further states that the inspectors general shall take appropriate steps to assure that any work performed by nonfederal auditors complies with GAGAS.

b. The Chief Financial Officers Act of 1990 (Public Law 101-576), as expanded by the Government Management Reform Act of 1994 (Public Law 103-356), requires that GAGAS be followed in audits of major executive branch departments' and agencies' financial statements. The Accountability of Tax Dollars Act of 2002 (Public Law 107-289) generally extends this requirement to most executive agencies not subject to the Chief Financial Officers Act.

c. The Single Audit Act Amendments of 1996 (Public Law 104-156) requires that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal awards. Subpart F of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 C.F.R. part 200), which provides the government-wide guidelines and policies on conducting audits to comply with the Single Audit Act, reiterates the requirement to use GAGAS.

1.10 Other laws, regulations, or authoritative sources may require the use of GAGAS. For example, auditors at the state and local government levels may be required by state and local laws and regulations to follow GAGAS. Also, auditors may be required by the terms of an agreement or contract to follow GAGAS. Auditors may also be required to follow GAGAS by federal audit guidelines pertaining to program requirements. Being aware of such other laws, regulations, or authoritative sources may assist auditors in performing their work in accordance with the required standards.

1.11 Even if not required to do so, auditors may find it useful to follow GAGAS in conducting engagements pertaining to federal, state, and local government programs as well as engagements pertaining to state and local government awards that contractors, nonprofit entities, and other nongovernmental entities administer. Though not formally required to do so, many audit organizations, both in the United States and in other countries, voluntarily follow GAGAS.

II. TYPES OF GAGAS USERS

1.12 GAGAS provides standards that are used by a wide range of auditors and audit organizations that audit government entities, entities that receive government awards, and other entities. These auditors and audit organizations may also be subject to additional requirements unique to their environments. Examples of the various types of users who may be required or may elect to use GAGAS include the following:

a. Contract auditors: audit organizations that specialize in conducting engagements pertaining to government acquisitions and contract administration

b. Certified public accounting firms: public accounting organizations in the private sector that provide audit, attestation, or review services under contract to government entities or recipients of government funds