PacificCPE

COURSE
11352A

Yellow Book: Competence, Quality Management, and Peer Review

Staying current and maintaining audit quality are non-negotiable in government auditing. This course covers GAGAS requirements for competence and continuing professional education, helping you understand what's expected of auditors working under the Yellow Book. You'll also dig into quality management systems, including who's responsible for them, how risk assessment fits in, and what engagement quality reviews involve. The course closes with a practical look at external peer review requirements and what they mean for your firm or organization.

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

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

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 the requirements of competence.
- Identify the continuing professional education requirements.
- Recall the quality control and peer review requirements.

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Chapter 1: COMPETENCE AND CONTINUING PROFESSIONAL EDUCATION

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the requirements of competence.
- Identify the continuing professional education requirements.

4.01 This chapter establishes the generally accepted government auditing standards (GAGAS) requirements for competence and continuing professional education (CPE). Competence includes being knowledgeable about the specific GAGAS requirements and having the skills and abilities to proficiently apply that knowledge on GAGAS engagements. CPE contributes to auditors' competence. The requirements of this chapter are intended to be followed in conjunction with all other applicable GAGAS requirements.

I. COMPETENCE

Requirements: General

4.02 The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.

4.03 The audit organization's management must assign auditors who before beginning work on the engagement possess the competence needed for their assigned roles.

4.04 The audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. The nature, extent, and formality of the process will depend on various factors, such as the size of the audit organization, its structure, and its work.

Application Guidance: General

4.05 Competence is the knowledge, skills, and abilities, obtained from education and experience, necessary to conduct the GAGAS engagement. Competence enables auditors to make sound professional judgments. Competence includes possessing the technical knowledge and skills

necessary for the assigned role and the type of work being done. This includes possessing specific knowledge about GAGAS.

4.06 Competence is derived from a combination of education and experience. Education is a structured and systematic process aimed at developing knowledge, skills, and other abilities; it is a process that is typically but not exclusively conducted in academic or learning environments. Experience refers to workplace activities that are relevant to developing professional proficiency. Competence is not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by auditors in any given time period. Maintaining competence through a commitment to learning and development throughout auditors' professional lives is an important element for auditors.

Application Guidance: Indicators of Competence

Technical Knowledge and Skills

4.07 The knowledge, skills, and abilities needed when conducting an engagement in accordance with GAGAS include the understanding necessary to proficiently apply

a. GAGAS;

b. Standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the engagement(s) being conducted; and

c. Techniques, tools, and guidance related to professional expertise applicable to the work being performed.

Auditor proficiency in these areas helps ensure that engagements are conducted in accordance with GAGAS.

4.08 Achieving the knowledge, skills, and abilities needed to conduct a GAGAS engagement may include

a. Having prior experience in the subject matter or type of engagement;

b. Completing CPE related to the subject matter or type of engagement; and

c. Obtaining degrees or certifications relevant to the subject matter or type of engagement.

Competence for Assigned Roles

4.09 The audit organization and engagement teams may consider the levels of proficiency needed for each role on the engagement when assigning auditors to the engagement.

4.10 Roles on the engagement generally include the following:

a. Nonsupervisory auditors: Auditors in these roles plan or perform engagement procedures. Work situations for these auditors are characterized by low levels of ambiguity, complexity,

and uncertainty. The nonsupervisory auditor role necessitates at least a basic level of proficiency.

b. Supervisory auditors: Auditors in these roles plan engagements, perform engagement procedures, or direct engagements. Work situations for these auditors are characterized by moderate levels of ambiguity, complexity, and uncertainty. The supervisory auditor role necessitates at least an intermediate level of proficiency.

c. Partners and directors: Auditors in these roles plan engagements, perform engagement procedures, or direct or report on engagements. Partners and directors may also be responsible for reviewing engagement quality prior to issuing the report, for signing the report, or both. Work situations for these auditors are characterized by high levels of ambiguity, complexity, and uncertainty. The partner and director role necessitates an advanced level of proficiency.

4.11 Definitions of key terms follow:

a. Planning: Determining engagement objectives, scope, and methodology; establishing criteria to evaluate matters subject to audit; or coordinating the work of the other audit organizations. This definition excludes auditors whose role is limited to gathering information used in planning the engagement.

b. Directing: Supervising the efforts of others who are involved in accomplishing the objectives of the engagement or reviewing engagement work to determine whether those objectives have been accomplished.

c. Performing engagement procedures: Performing tests and procedures necessary to accomplish the engagement objectives in accordance with GAGAS.

d. Reporting: Determining the report content and substance or reviewing reports to determine whether the engagement objectives have been accomplished and the evidence supports the report's technical content and substance prior to issuance. This includes signing the report.

Requirement: Specialists

4.12 The engagement team should determine that specialists assisting the engagement team on a GAGAS engagement are qualified and competent in their areas of specialization.

APPLICATION GUIDANCE: SPECIALISTS

4.13 Some engagements may necessitate the use of specialized techniques or methods that call for the skills of specialists. Specialists do not include individuals with special skill or knowledge related

to specialized areas within the field of accounting or auditing, such as income taxation and information technology. Such individuals are considered auditors.

4.14 The competence and qualifications of specialists significantly affect whether their work will be adequate for the engagement team's purposes and will meet GAGAS requirements. Competence of specialists relates to the nature and level of expertise. Qualifications of specialists relate to their professional certifications, reputations, and previous work in the subject matter. Other relevant factors include the ability of specialists to exercise competence in the circumstances of the engagement and the effects that bias, conflict of interest, or the influence of others may have on the specialists' professional judgment.

4.15 Sources that may inform the auditors'assessment of the competence and professional qualifications of a specialist include the following:

a. The professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate;

b. The reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance;

c. The specialist's experience and previous work in the subject matter;

d. The auditors' assessment of the specialist's knowledge and qualification based on prior experience in using the specialist's work;

e. The specialist's knowledge of any technical performance standards or other professional or industry requirements in the specialist's field (for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation);

f. The knowledge of the specialist with respect to relevant auditing standards; and

g. The assessment of unexpected events, changes in conditions, or the evidence obtained from the results of engagement procedures that indicate it may be necessary to reconsider the initial evaluation of the competence and qualifications of a specialist as the engagement progresses.

II. CONTINUING PROFESSIONAL EDUCATION

Requirements: General

4.16 Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should develop and maintain their professional competence by completing at least 80 hours of CPE in every 2-year period as follows.

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 enhance auditors' professional expertise to conduct engagements

4.17 Auditors should complete at least 20 hours of CPE in each year of the 2-year periods.

4.18 The audit organization should maintain documentation of each auditor's CPE.[1]

Application Guidance: General

4.19 The continuing competence of the audit organization's personnel depends, in part, on an appropriate level of CPE so that auditors maintain the knowledge, skills, and abilities necessary to conduct the GAGAS engagement. Obtaining CPE specifically on GAGAS, particularly during years in which there are revisions to the standards, may assist auditors in maintaining the competence necessary to conduct GAGAS engagements.

4.20 CPE used to fulfill the 24-hour requirement may be taken at any time during the 2-year measurement period.

Application Guidance: Subject Matter Categories of CPE

4.21 Determining what subjects are appropriate for individual auditors to satisfy the CPE requirements is a matter of professional judgment to be exercised by auditors in consultation with appropriate officials in their audit organization. When determining what specific subjects qualify for the CPE requirement, the auditors may consider the types of knowledge, skills, and abilities, and the level of proficiency necessary, in order to be competent for their assigned roles. Auditors may consider probable future engagements to which they may be assigned when selecting specific CPE subjects to satisfy the 24-hour and the 56-hour CPE requirements. The audit organization is ultimately responsible for determining whether a subject or topic qualifies as acceptable for its auditors.

4.22 The subject matter categories for the 24-hour requirement may be used to satisfy the 56-hour CPE requirement. If CPE in any of the subject matter and topics that would satisfy the 56-hour requirement, as discussed in paragraph 4.24, is tailored specifically to the government environment, such CPE may qualify toward satisfying the 24-hour requirement. Examples of CPE subjects that may qualify for each of the categories are listed below.

Subject Matter Directly Related to the Government Environment, Government Auditing, or the Specific or Unique Environment in Which the Audited Entity Operates (24-Hour Requirement)

4.23 Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates may include, but is not limited to, the following:

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;[2]

c. The applicable AICPA Statements on Standards for Attestation Engagements and Statements on Standards for Accounting and Review Services;[3]

d. The applicable auditing standards issued by the Institute of Internal Auditors, the Public Company Accounting and Oversight Board, the International Auditing and Assurance Standards Board, or other auditing standard-setting body;

e. U.S. generally accepted accounting principles, or the applicable financial reporting framework being used, such as those issued by the Federal Accounting Standards Advisory Board, the Governmental Accounting Standards Board, or the Financial Accounting Standards Board;

f. *Standards for Internal Control in the Federal Government*;[4]

g. *Internal Control—Integrated Framework*,[5] as applicable;

h. Requirements for recipients of federal contracts or grants, such as Single Audits under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*;[6]

i. Requirements for federal, state, or local program audits;

j. Relevant or applicable audit standards or guides, including those for information technology auditing and forensic auditing;

k. Information technology auditing topics applicable to the government environment;

l. Fraud topics applicable to a government environment;

m. Statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the specific and unique environment in which the audited entity operates;

n. Statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the subject matter of the engagement, such as scientific, medical, environmental, educational, or any other specialized subject matter;

o. Topics directly related to the government environment, such as the nature of government (structures, financing, and operations), economic or other conditions and pressures facing

governments, common government financial management issues, appropriations, measurement or evaluation of government financial or program performance, and application of general audit methodologies or techniques to a government environment or program;

p. Specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial estimates, statistical analysis tests, or statistical or nonstatistical sampling;

q. Performance auditing topics, such as obtaining evidence, professional skepticism, and other applicable audit skills;[7]

r. Government ethics and independence;

s. Partnerships between governments, businesses, and citizens;

t. Legislative policies and procedures;

u. Topics related to fraud, waste, abuse, or improper payments affecting government entities; and

v. Compliance with laws and regulations.

Subject Matter That Directly Enhances Auditors' Professional Expertise to Conduct Engagements (56-Hour Requirement)

4.24 Subject matter that directly enhances auditors' professional expertise to conduct engagements may include, but is not limited to, the following:

a. Subject matter categories for the 24-hour requirement listed in paragraph 4.23;

b. General ethics and independence;

c. Topics related to accounting, acquisitions management, asset management, budgeting, cash management, contracting, data analysis, program performance, or procurement;

d. Communicating clearly and effectively, both orally and in writing;

e. Managing time and resources;

f. Leadership;

g. Software applications used in conducting engagements;

h. Information technology; and

i. Economics, human capital management, social and political sciences, and other academic disciplines that may be applied in engagements, as applicable.

Application Guidance: Exemptions and Exceptions

4.25 Auditors may be exempted from the 56-hour CPE requirement by the audit organization, but not the 24-hour requirement, if they