

Government Auditing Standards (“the Yellow Book”)

What does it mean to conduct or perform a performance audit according to Generally Accepted Government Auditing Standards (also referred to as the Yellow Book)? Key elements of Yellow Book compliance include:

1. Performance audit reports should include a statement (paragraph 8.30 of the 2007 Yellow Book) that the audit was performed in accordance with generally accepted government auditing standards, and the paragraph prescribes the language to be used.

“We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.”

If the audit did not comply with all applicable Yellow Book requirements, the statement is to include a modified compliance statement indicating what standards were not fully met. (8.31)

2. The Yellow Book requires that the auditor be independent of the entity under review and there can be no personal, external, or organizational impairments to independence (3.02-3.15). In short, performance auditors and their contractors are supposed to be objective and independent, and the conditions under which they work are supposed to encourage and maintain their objectivity and independence. Audit organizations should have, as part of their quality control system, policies and procedures to identify impairments and help ensure that auditors remain independent.
3. Audit staff and contractors must be competent and must exercise professional judgment (3.31-3.49 and 7.44-7.45). Competence is the collection of skills necessary to fulfill the audit mandate. Professional judgment includes professional skepticism and a critical assessment of the evidence.
4. Audit work must be planned so that it meets the audit objectives, provides reasonable assurance that evidence is sufficient, and includes an assessment of the internal controls that are significant to the audit objectives. (7.03-7.22 and 7.50-7.51)
5. Audit work must be adequately supervised. (7.52-7.54)
6. Audit work and adherence to Yellow Book standards must be properly documented (7.77-7.84), including those relating to data reliability (7.23-7.27 & 7.65) and fraud (7.30-7.32 & 8.21-8.23), as applicable.
7. Audit reports should be clear and convincing and based on sufficient appropriate evidence (7.55-7.71). Reports should include (1) the scope, objectives, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations; (3) a statement about compliance with audit standards (see #1 above); and (4) a summary of the views of responsible officials, preferably in writing but at least there must be oral testimony. (8.08)

The above requirements refer to audit reports. In addition, audit organizations are required to meet certain general qualifications and conditions, such as the following:

- a. Have an appropriate quality control system that provides the organization with reasonable assurance of compliance with professional standards and any legal or statutory requirements. (3.50-3.54)
- b. Be based on ethical principles: (a) the public interest, (b) integrity, (c) objectivity, (d) professional behavior, and (e) proper use of government information, resources, and position. (2.04 – 2.15)
- c. Have an external peer review every three years. (3.55-3.63)
- d. Individual audit staff must obtain 80 hours of continuing professional education (CPE) every two years. (3.46-3.49)
Contractors who assist with audit work are “external specialists” and are not required to obtain 80 hours of CPE.

The Yellow Book has changed in each edition (1972, 1988, 1994, 2003, and 2007). The U.S. Government Accountability Office, with input from Comptroller General’s Advisory Council on Government Auditing Standards, revises the Yellow Book and circulates draft revisions among the professional audit community for review and comment. The 2007 edition significantly enhanced the standards, and interpretation of the new standards is an ongoing effort.

The complete standards (218 pages) are available online at <http://www.gao.gov/govaud/ybk01.htm>