

Non-Profit Notes Newsletter

Spotlight on Yellow Book Revisions

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The U.S. Government Accountability Office (GAO) issued revisions to generally accepted government auditing standards (GAGAS). GAGAS are also commonly referred to as the “Yellow Book.” The revisions are directed to auditors performing audits under GAGAS and largely apply to rules surrounding independence, transparency and accountability. Although the revisions apply to the auditing standards auditors must follow, organizations should also be aware of the changes because they may be asked questions from their auditors or face workflow issues they have not considered in the past.

Effective Dates

The revisions in the new Yellow Book are effective for financial audits, attestation engagements and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

It is important to note that auditors performing nonaudit services related to a June 30, 2020 financial statement audit will need to comply with the new independence requirements on July 1, 2019, the **beginning** of the audit period.

Key Revisions

One of the most important changes to the Yellow Book relates to the nonaudit services auditors may perform together with their audit of the financial statements. For example, preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records automatically creates significant threats to an audit firm’s independence. Auditors should document both the threats and safeguards applied to eliminate and reduce threats to an acceptable level (or they may have to decline to provide the service).

Some of the safeguards auditors could apply include:

- Having separate personnel perform the audit and preparation of financial statements
- Having an independent third party inside or outside the firm perform a second review of the financial statement work

The revisions also state that auditors should identify as threats to independence other services related to preparing accounting records and financial statements. When performing these types of services, auditors should document their evaluation of the significance of the potential threats to independence even if they find them to not be significant. These services include:

- Preparing line items or sections of the financial statements based on the client’s trial balance
- Recording transactions for which client management has determined or approved appropriate account classification
- Posting coded transactions to a client’s general ledger
- Preparing account analysis or reconciliations
- Posting client-approved entries to their trial balance.

Conclusion

Even if a firm determines that preparing financial statements in their entirety from a client-provided trial balance does not, in substance, meet the threshold of “in their entirety,” the Yellow Book requires the firm to evaluate and then document the threats to independence. If the threats are significant, the firm should apply safeguards to reduce the threat(s) to an acceptable level.

To the extent that a firm is engaged to perform nonattest services together with performing a financial statement audit, the **client** must have an individual or individuals overseeing the nonattest services possessing appropriate skills, knowledge and experience to oversee and understand the services provided.

Contact Us

If your not-for-profit organization needs assistance understanding the revisions to the Yellow Book, or with any accounting, auditing, tax or business consulting services, please contact the partner in charge of your account or:

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