

# Yellow Book Update

June 2, 2026

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## About Your Instructor



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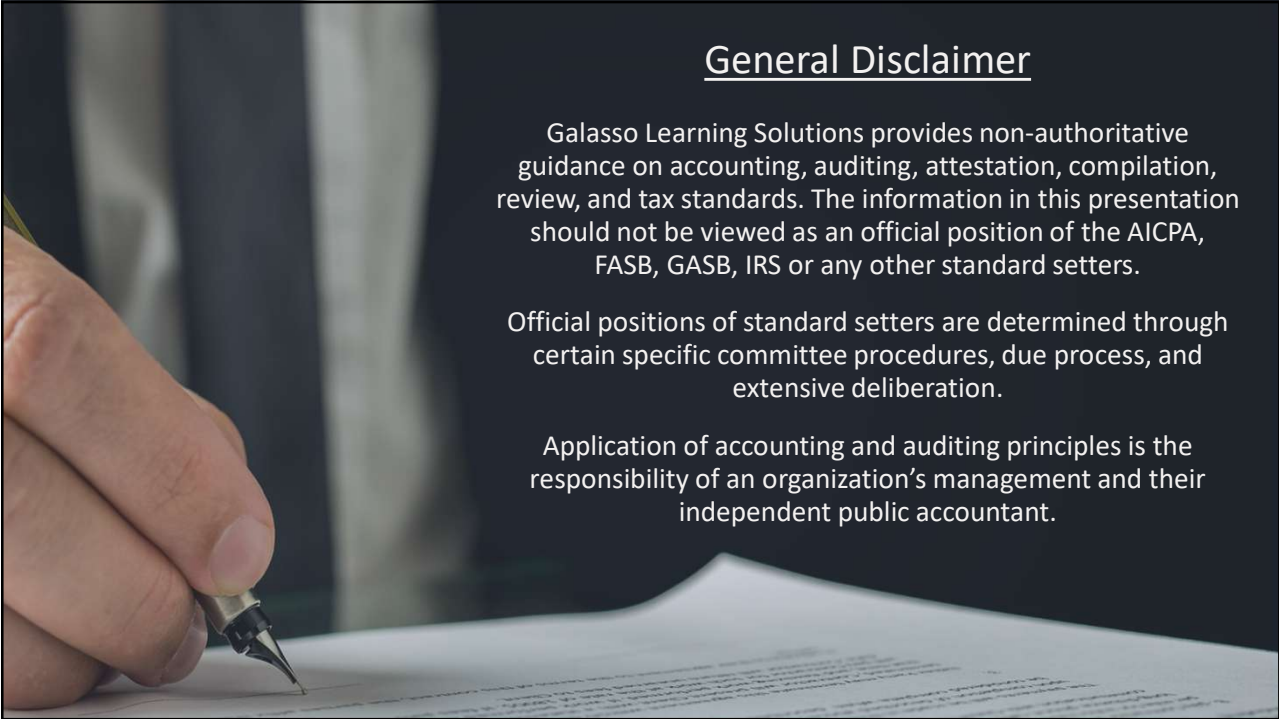
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## Agenda

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- 2024 Yellow Book
- Quality Management FAQs from the GAO
- GAO Transition
- Green Book

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# 2024 Yellow Book



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## Background

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### **Government Auditing Standards 2024 Revision**

- Issued: February 1, 2024
- **Background:**
  - Contains major changes from, and supersedes, Government Auditing Standards 2018 Revision Technical Update April 2021
    - Chapter 5, "Quality Management, Engagement Quality Reviews, and Peer Review" in the 2024 revision replaces Chapter 5, "Quality Control and Peer Review," in the 2018 Revision
    - Application guidance is added to Chapter 6, "Standards for Financial Audits"

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## Major Changes

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- Some of the changes in the 2024 Revision of Government Auditing Standards reflect:
  - An emphasis on the responsibility of an audit organization's leadership for proactively managing quality on its engagements
  - An approach that promotes scalability of the system of quality management for use by audit organizations differing in size and complexity
  - A risk-based process for achieving the objectives of quality management
  - A change in approach from quality control to quality management
  - Flexibility for audit organizations subject to other quality management standards to avoid the burden of designing, implementing, and operating separate systems of quality management
  - Promotion of proactive and effective monitoring activities and increased emphasis on tailoring monitoring activities
  - Provisions for optional engagement quality reviews of GAGAS engagements
  - Application guidance on key audit matters for when they may apply to financial audits of government entities and entities that receive government financial assistance

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## Convergence

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- Aligns significantly with AICPA & IAASB QM standards
  - Same effective date as AICPA

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# Quality Management Overview



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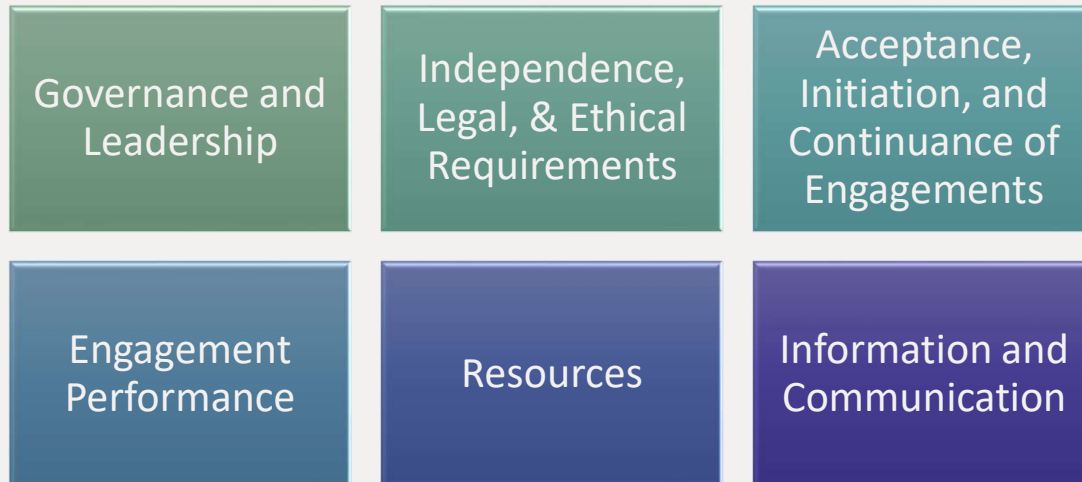
## Objective

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- The objective of a system of QM is to provide the audit organization with reasonable assurance that the audit organization and its personnel
  - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations; and
  - Perform and report on engagements in accordance with such standards and requirements

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## Components of QM



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## Processes

- The risk assessment process includes assessing and responding to risks to achieving the quality objectives
- The monitoring and remediation process includes
  - Providing relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
  - Taking appropriate actions to respond to and remediate identified deficiencies in the system of quality management
  - Enabling the audit organization to assess compliance with professional standards and with policies and procedures it has established to address quality risks

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## Risk Based Approach

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- Establishing the desired outcomes relative to the components of the system of quality management
  - Referred to as quality objectives
- Identifying and assessing risks to achieving the quality objectives
  - Referred to as quality risks
- Designing and implementing responses to address quality risks

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## Requirements

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- An audit organization must design, implement, and operate a system of quality management that provides it with **reasonable assurance** that the audit organization and its personnel
  - Fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and
  - Perform and report on engagements in accordance with such standards and requirements

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## Nongovernment Audit Orgs

- A nongovernment audit organization subject to the quality management standards of recognized organizations should comply with the respective organization's QM requirements and the requirements of paragraphs 5.55c, 5.55d, & 5.74c
- Recognized Orgs
  - American Institute of Certified Public Accountants
  - International Auditing and Assurance Standards Board
  - Public Company Accounting Oversight Board

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## Additional Requirements

### 5.55c

- If an engagement is terminated before it is completed and an audit report is not issued, document the results of the work to the date of termination and why the engagement was terminated

### 5.55d

- If auditors change the engagement objectives during the engagement, document the revised engagement objectives and the reasons for the changes

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## Additional Requirements Cont'd

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### 5.74c

- Auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements

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## Government Audit Organizations

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- Government audit organizations should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154

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## Non-Govs Not Subject to Recognized Orgs

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- Nongovernment audit organizations not subject to the quality management standards of one of the recognized organizations in paragraph 5.07 should comply with the GAGAS quality management requirements in paragraphs 5.05 through 5.138 and, if applicable, engagement quality review requirements in paragraphs 5.139 through 5.154

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## Yellow Book QM Requirements



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## Monitoring and Remediation Process

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- The audit organization should establish a process to monitor the design, implementation, and operation of the system of quality management to provide a basis for identifying deficiencies and remediating them on a timely basis

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## Monitoring and Remediation Process Cont'd

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- Designing and Performing Monitoring and Remediation Activities
  - The audit organization should design and perform monitoring and remediation activities to
    - Provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management
    - Take appropriate actions to respond to identified deficiencies so that they are remediated on a timely basis
    - Enable it to assess compliance with professional standards and with policies & procedures it has established to address quality risks

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## Monitoring and Remediation Process Cont'd

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- The audit organization should establish policies and procedures that address the objectivity of the individuals performing the monitoring and remediation activities and require those individuals to have sufficient competence, authority, and time to perform these activities

## Monitoring and Remediation Process Cont'd

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- Evaluating Quality Management Findings and Quality Management Deficiencies
  - The audit organization should evaluate findings concerning the system of quality management to determine whether deficiencies exist, including in the monitoring and remediation process
  - The audit organization should evaluate the severity and pervasiveness of identified deficiencies in the system of quality management by investigating their underlying causes and evaluating their effect, both individually and in the aggregate, on the system of quality management

## Monitoring and Remediation Process Cont'd

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- Responding to Identified QM Deficiencies
  - The audit organization should design and implement remedial actions that respond to the results of the analysis of underlying causes to address identified deficiencies in the system of quality management
  - The audit organization should evaluate the remedial actions to determine whether they are effective in addressing the identified quality management deficiencies and their related underlying causes
  - If the audit organization's evaluation indicates that the remedial actions are not effective in addressing the quality management deficiencies, the audit organization should modify the remedial actions such that identified deficiencies and their related underlying causes are addressed

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## Monitoring and Remediation Process Cont'd

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- Quality Management Findings About a Particular Engagement
  - The audit organization should respond to circumstances when QM findings indicate that there is an engagement for which
    - Required procedures were omitted during the performance of the engagement or
    - The report issued may not comply with professional standards or applicable laws or regulations

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## Monitoring and Remediation Process Cont'd

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- Ongoing Communication Related to Monitoring and Remediation
  - The audit organization should communicate to appropriate personnel, including the senior-level official assigned responsibility and accountability for the system of quality management, and relevant engagement partner(s) or director(s) the following:
    - A description of the monitoring activities performed
    - The identified deficiencies, along with information about their severity and pervasiveness
    - The remedial actions to address identified deficiencies

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## Monitoring and Remediation Process Cont'd

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- The audit organization should communicate the matters found to engagement teams and others within the system of quality management to enable the audit organization and appropriate personnel to take prompt remedial action related to deficiencies in accordance with their responsibilities

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## Monitoring and Remediation Process Cont'd

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- Evaluating and Concluding on the System of Quality Management
  - The senior-level official assigned responsibility and accountability for the audit organization's system of quality management should evaluate the system of quality management
  - The evaluation should be undertaken as of a point in time and performed at least annually

## Monitoring and Remediation Process Cont'd

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- Based on this evaluation, the senior-level official should conclude and document one of the following:
  - The system of quality management provides the audit organization with **reasonable assurance** that the objective of the system of quality management is being achieved
  - **Except for** matters related to identified deficiencies that have a severe but not pervasive effect on its design, implementation, and operation, the system of quality management provides the audit organization with reasonable assurance that the objective of the system of quality management is being achieved
  - The system of quality management **does not provide** the audit organization with reasonable assurance that the objective of the system of quality management is being achieved

## Monitoring and Remediation Process Cont'd

- When evaluating and concluding on the system of quality management, the senior-level official assigned responsibility and accountability for the system of quality management should consider
  - Audit organization's quality management risk assessment process, including its quality objectives, quality risks, and responses and the extent to which the audit organization's responses address the quality risks
  - Results of the monitoring and remediation process

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## Documentation

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## Documentation

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- The audit organization should document its system of quality management in a manner sufficient to
  - Support personnel's consistent understanding of the system of quality management, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements
  - Support the consistent implementation and operation of the responses to address quality risks
  - Provide evidence of the design, implementation, and operation of the responses to address quality risks to support the evaluation of the system of quality management by the senior-level official assigned responsibility and accountability for it

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## Documentation Cont'd

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- The audit organization should include the following in its documentation of its system of quality management:
  - Identification of the
    - Senior-level official assigned responsibility and accountability for the system of quality management
    - Individual or individuals assigned operational responsibility for the system of quality management
  - The audit organization's quality management risk assessment, including its quality objectives, quality risks, and a description of the responses and how the audit organization's responses address the quality risks

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## Documentation Cont'd

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- Monitoring and remediation process
  - Evidence of the monitoring activities performed
  - The evaluation of findings, and identified deficiencies and their related underlying causes
  - Remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions
  - Communications about monitoring & remediation
  - The conclusion and the basis for the conclusion reached

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## Documentation Cont'd

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- The audit organization should establish a period of time for document retention for the system of quality management that is sufficient to enable the audit organization and its peer reviewer to monitor the design, implementation, and operation of the system of quality management or for a longer period if required by law or regulation

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EQR



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## Engagement Quality Review (EQR)

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- An audit organization using engagement quality reviews should establish policies and procedures that set forth the eligibility criteria to be appointed as an engagement quality reviewer or an assistant to an engagement quality reviewer

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## EQR Cont'd

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- The policies and procedures should require that any engagement quality reviewer and any assistants to an engagement quality reviewer not be members of the engagement team, and
  - Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; and
  - Comply with applicable legal and ethical requirements, including those addressing threats to the objectivity of the engagement quality reviewer

## EQR Cont'd

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- An audit organization using engagement quality reviews should establish policies and procedures that address circumstances in which the engagement quality reviewer's eligibility to perform the quality review is impaired and the appropriate actions to be taken by the audit organization
- The audit organization should include in such policies and procedures notification to appropriate individuals within the audit organization if the engagement quality reviewer becomes aware of circumstances that impair the engagement quality reviewer's eligibility

## Performance of the EQR

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- An audit organization using engagement quality reviews should establish policies and procedures regarding the performance of the engagement quality review that address the following:
  - a) The engagement quality reviewer's responsibilities to perform procedures at appropriate points in time during the engagement to provide an appropriate basis for an objective evaluation of the engagement team's significant judgments and the conclusions reached thereon
  - b) The responsibilities of the engagement partner or director in relation to the engagement quality review, including that
    - The engagement partner or director is precluded from releasing the audit report until after having received notification from the engagement quality reviewer that the engagement quality review is complete and
    - Documentation is provided to the engagement quality reviewer to permit completion of the engagement quality review

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## Performance of the EQR Cont'd

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- c) Circumstances when the nature and extent of engagement team discussions with the engagement quality reviewer about a significant judgment give rise to a threat to the engagement quality reviewer's objectivity and appropriate actions to take in these circumstances

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## Performance of the EQR Cont'd

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- In performing an engagement quality review, the engagement quality reviewer should do the following:
  - a) Read and obtain an understanding about information communicated to the engagement quality reviewer by the
    - Engagement team regarding the nature and circumstances of the engagement and the entity and
    - Audit organization related to its monitoring and remediation process, in particular, identified deficiencies that may relate to, or affect, the areas involving significant judgments made by the engagement team

## Performance of the EQR Cont'd

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- b) Discuss with the engagement partner or director and, if applicable, other members of the engagement team, significant matters and significant judgments made in planning, performing, and reporting on the engagement
- c) Review selected engagement documentation relating to the engagement team's significant judgments and evaluate the following:
  - Basis for making those significant judgments, including the engagement team's exercise of professional skepticism (as applicable to the type of engagement)
  - Whether the engagement documentation supports the conclusions reached
  - Whether the conclusions reached are appropriate

## Performance of the EQR Cont'd

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- d) Evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion and the conclusions arising from those consultations
- e) Evaluate the basis for
  - The engagement partner/director's determination that the engagement partner/director's involvement has been sufficient and appropriate throughout the engagement such that the engagement partner/director has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement and
  - The engagement partner/director's determination that independence and ethical requirements have been fulfilled

## Performance of the EQR Cont'd

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- f) Review
  - For audits of financial statements, the financial statement and the auditor's report thereon, including, if applicable, the description of the key audit matters;
  - For reviews of financial statements or financial information, the financial statements or financial information and the audit report thereon; or
  - For other engagements, the audit report, and when applicable, the subject matter information

## Performance of the EQR Cont'd

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- If an engagement quality reviewer has concerns that the engagement team's significant judgments or conclusions are not appropriate, the engagement quality reviewer should notify the engagement partner or director
  - If such concerns are not resolved to the engagement quality reviewer's satisfaction, the engagement quality reviewer should notify appropriate individuals in the audit organization that the engagement quality review cannot be completed

## Completion of the EQR

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- When an engagement quality review is performed, the engagement quality reviewer should notify the engagement partner or director when the engagement quality review is complete

## EQR Documentation

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- When an engagement quality review is performed, the engagement quality reviewer should document
  - Names of the engagement quality reviewer and individuals who assisted with the quality review
  - That the procedures required by the audit organization's policies on engagement quality reviews were performed
  - That the engagement quality reviewer is not aware of any unresolved matters that would cause the engagement quality reviewer to believe that the significant judgments that the engagement team made and the conclusions it reached were not appropriate
  - The notifications required in accordance with paragraphs 5.147 & 5.152
  - The date of completion of the engagement quality review

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## Financial Reporting



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## Key Audit Matters – Application Guidance

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- Although there is no requirement in GAGAS to communicate key audit matters in the auditor's report, auditors may be required to communicate in the auditor's report key audit matters for audits of government entities and entities that receive government financial assistance if
  - Engaged to do so by management or those charged with governance or
  - Required by law or regulation

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# Effective Date



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## Effective Date

- 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



## Effective Date Cont'd

- A system of quality management that complies with Government Auditing 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



## Effective Date Cont'd

- Early implementation is permitted



## Quality Management FAQs from the GAO



## GAO's Government Auditing Standards QM FAQs

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### Frequently Asked Questions: Establishing and Maintaining a System of Quality Management GAO-26-108710

- Issued: December 15, 2025
- Background:
  - Since the 2024 Yellow Book was issued, the GAO has received numerous questions about establishing and maintaining a system of quality management
  - This document provides guidance to auditors and audit organizations by answering those FAQs

## One Small Issue...

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- The GAO published and released this document on December 15, 2025, the same date as the deadline to implement a System of Quality Management!
- However, Federal Government Audit Organization may defer the design & implementation of its system of QM until no later than March 16, 2026



## The Guidance Has Three Sections

Section I: Quality Management Risk Assessment Process

Section II: Quality Management Monitoring and Remediation Process

Section III: Engagement Quality Reviews

## Section I: QM Risk Assessment Process

Figure 1: Quality Management Risk Assessment Process



Source: GAO | GAO-26-108710

## Section I: QM Risk Assessment Process Cont'd

- The 11 questions in this section include:
  - We met the 2018 Yellow Book requirements and have clean peer reviews; do we need a new set of policies and procedures?
  - When does the initial risk assessment need to be performed, December 15, 2025, or 2026?
  - Do you need to establish all the quality objectives?
  - Does the GAO have a template or guide for designing a system of quality management?

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## Section II: QM Monitoring and Remediation Process

Figure 2: Relationship Between Risk Assessment and Monitoring and Remediation Processes



Source: GAO. | GAO-26-108710

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## Section II: Quality Management Monitoring and Remediation Process Cont'd

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- The 7 questions in this section include:
  - What's the relationship between the risk assessment and monitoring and remediation process?
  - Does a small firm need to hire another audit organization to monitor the system of QM?
  - What's the difference between an engagement quality review and an engagement inspection?

## Section III: Engagement Quality Reviews

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- The 4 questions in this section include:
  - Is an engagement quality reviewer subject Yellow Book CPE requirements if they don't perform Yellow Book engagements?
  - Yellow Book requires the engagement quality review to be done before report issuance, how can a firm do that and issue a timely report?

## Key Takeaways

GAO has answered the FAQs for establishing and maintaining a QM System

Timing was not ideal, but the GAO's responses didn't introduce any new concepts or substantial changes

Questions address the QM process, monitoring and remediation processes, and engagement quality reviews

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## Effective Date

- This guidance was effective as of its release date, December 15, 2025



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# GAO Transition



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## Transition

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- The eighth Comptroller General, Gene Dodaro, was appointed in 2010. His term ended on December 29, 2025.
  - After more than 50 years of public service with GAO and 15 years as Head
- Orice Williams Brown is serving as Acting Comptroller General until Commission selects new Comptroller General

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# Green Book



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## 2025 Revision

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### **Standards for Internal Control in the Federal Government**

- Issued: May 2025
- Background:
  - Previous version of the Green Book was issued in September 2014. The 2025 revision contains changes from and supersedes the 2014 version.
  - Federal Managers' Financial Integrity Act of 1982 requires Comptroller General to issue standards for internal control in the federal government

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## Key Changes in the Revision

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Improper payments and information security risks

Risk assessment documentation

Documentation for significant changes to the internal control system

2 new appendixes providing additional control activity information

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## Updates

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- Emphasis on:
  - Prioritizing preventive control activities
  - Management's responsibilities for internal control at all levels of the organizations structure
- Clarify the intent of the standards
- Continue harmonizing with Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework

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## Improper Payments and Info Security

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- Adds a requirement to consider risks related to improper payments and information security when identifying, analyzing, and responding to risks (paragraphs 8.01 through 8.05 and 8.11 through 8.20)

## New Documentation Requirements

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- Management documents the results of the risk assessment, including the identification, analysis, and response to risks, that are completed on both a periodic and ongoing basis
  - This includes documentation of the consideration of risks related to fraud, improper payments, information security, and significant internal and external changes that could impact the internal control system (paragraph 7.15)
- Management documents a process for responding to significant changes and related risks so that the internal control system can be quickly adapted as needed to respond to changes once they occur (paragraph 9.08)

## Fraud Considerations

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- The types of fraud have been broadened to clarify
  - That fraud can be both financial and nonfinancial; and
  - What other types of illegal acts are considered as fraud (paragraph 8.06)
- Emphasizes that fraud involves obtaining something of value through willful misrepresentation (paragraph 8.06)

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## Preventative Controls

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- Emphasizes that management prioritizes preventive controls by considering them first, as they generally offer the most cost-efficient use of resources and are generally effective at mitigating fraud and improper payments (paragraphs 10.09 through 10.11)

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## Effective Date

- Effective beginning with fiscal year 2026 and the Federal Managers' Financial Integrity Act of 1982 reports covering that year
- Early implementation is permitted



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## The Green Book



<https://www.gao.gov/assets/gao-25-107721.pdf>

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## 3, 2, 1 Method of Applying New Knowledge

**3** things I learned

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**2** actions to apply what I learned

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**1** way I will share my learning

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# What Questions Do You Have?



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