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## BULLETIN

To: ALL EXECUTIVE DIRECTORS  
GRANTEE INDEPENDENT PUBLIC ACCOUNTANTS

From: Roxanne Caruso *Roxanne Caruso*  
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Subject: 2018 Revision of *Government Auditing Standards*

Date: June 28, 2019

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### Background

The Office of Inspector General (OIG) for the Legal Services Corporation (LSC) is issuing this bulletin to LSC grantee Executive Directors (EDs) and the Independent Public Accountants (IPAs) with whom they contract to conduct their annual financial statement audits. The purpose is to provide EDs and IPAs with information pertaining to the 2018 Revision of *Government Auditing Standards* (<https://www.gao.gov/assets/700/693136.pdf>) (often referred to as the Yellow Book or GAGAS) issued by the Government Accountability Office (GAO).

Beginning with the 1996 appropriation of Federal funds to LSC, each entity receiving financial assistance from LSC must be audited in accordance with with government auditing standards.

The bulletin is a high-level summary of some of the significant changes to the Yellow Book, especially those related to independence. It also provides resources for grantee EDs and IPAs to obtain information about the revision.

### Effective Dates

The 2018 Yellow Book supersedes the 2011 Yellow Book and is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020. It is effective for performance audits beginning on or after July 1, 2019. This bulletin refers to the revisions related to financial audits. Early implementation is not permitted.

### Key Changes

The 2018 Revision of the Yellow Book includes several changes including:

- A new format and organization of content;

- Expanded independence requirements related to nonaudit services;
- Updates to continuing professional education requirements;
- Modifications to peer review standards;
- Clarification of findings guidance;
- A new definition for waste;
- New compliance standards for reviews of financial statements;
- Updates to performance audits standards; and
- Revisions to other areas of emphasis.

## Independence Requirements Related to Nonaudit Services

Of the 2018 Yellow Book revisions, LSC grantees and IPAs may find that the independence requirements are most significant, especially those related to nonaudit services.

The general requirements regarding independence state:

**3.18** In all matters related to the GAGAS engagement, auditors and audit organizations must be independent from the audited entity.

**3.19** Auditors and audit organizations should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work.

Depending on the work performed by IPAs, the provisions related to the performance of nonaudit services may be applicable.

The Yellow Book states:

**3.64** Before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct.

If an IPA, contracted by an LSC recipient to conduct their annual financial statement audit, also performs nonaudit services for the grantee, the IPA and grantee management must consider Yellow Book requirements and apply the relevant guidance to avoid independence impairments.

For example, the revised standards state that auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying records creates significant threats to independence.

Further, the revised Yellow Book states that auditors should identify certain other services related to preparing accounting records and financial statements. When engaging in these types of services, auditors should evaluate and document their analysis of the significance of such threats. In doing so,

auditors should document safeguards applied to eliminate and reduce those threats to an acceptable level or decline to provide the services.

LSC grantees and IPAs should carefully review, consider and implement the requirements and guidance included in the 2018 Revisions of the Yellow Book.

## Resources

- GAO's Yellow Book Web page: <https://www.gao.gov/yellowbook/overview>
- 2018 Revision of *Government Auditing Standards* <https://www.gao.gov/assets/700/693136.pdf>
- American Institute of Certified Public Accountants (AICPA) Auditee Resource Center <https://www.aicpa.org/interestareas/governmentauditquality/resources/auditeeresourcecenter.html>
- AICPA: Yellow Book Tools, Practice Aids, and Other Resources for Auditees <https://www.aicpa.org/interestareas/governmentauditquality/resources/auditeeresourcecenter/yellowbooktoolspracticeaidsandotherresourcesforauditees.html>
- AICPA: Archived Member Web Events – AICPA and GAO Auditing Standards <https://www.aicpa.org/interestareas/governmentauditquality/resources/archivedmemberwebevents-auditingstandards.html>
- AICPA: The Yellow Book: What You Need to Know <https://www.aicpa.org/content/dam/aicpa/interestareas/governmentauditquality/resources/downloadabledocuments/newyellowbookgagcwebevent2.pdf>
- AICPA: Understanding the Changes to Yellow Book Independence <https://www.aicpa.org/content/dam/aicpa/interestareas/governmentauditquality/resources/downloadabledocuments/gagcwebevent-20190221-ybindependence.pdf>

I hope you find this bulletin useful. If you have any questions, please contact me at (202) 295-1582 or [rcaruso@oig.lsc.gov](mailto:rcaruso@oig.lsc.gov).