

## **Auditing in Accordance with Government Auditing Standards (Yellow Book)**

Question: We have several audit clients who are municipalities. We currently have a few municipalities who do not adopt a GAAP waiver. We audit them in accordance with KMAG as required and site KMAG in our report. Many of these clients also adopt most GASB statements. In reading the guidance and requirements presented in KMAG we have noted in the past that *Government Auditing Standards* are not required.

My question is this, should we be auditing in accordance with *Government Auditing Standards* taking into consideration the fact that they present on a GAAP basis and many adopt GASB statements? Or, are we okay to not apply the standards? We have debated this many times over the past few years and have even discussed with our peer reviewer but no clear cut conclusion has been made.

Thank you so much for your help with this!

Answer: Good afternoon. You are correct in that the KMAG does not require that municipal audits be conducted in accordance with *Government Auditing Standards* (the Yellow Book). Audits in accordance with *Government Auditing Standards* are encouraged, however, and are acceptable so long as the other KMAG requirements are met. See Page 3 of the 2011 KMAG.

This is the KMAG guidance, but we do feel *Government Audit Standards* (the Yellow Book) must be used if the local unit of government is receiving federal funds and is subject to an A-133 Audit (Single Audit Act). Under these circumstances the guidance provided by the KMAG would not supersede federal requirements. If the requirements of this trigger are not met, then *Government Audit Standards* do not have to be used, but would be encouraged.

To address your specific question, the fact that the financial statements are presented on a GAAP basis, and may adopt GASB statements, does not appear to be the catalyst in determining the use of the *Government Auditing Standard*.

Hope this information helps. If you have additional questions or comments, please do not hesitate to ask. Thank you.

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Question: I am preparing a quote for a KMAG audit.

I have the guide, and I feel relatively familiar with the guide. It has been our firm's opinion that KMAG engagements are subject to the yellow book. Is this the state's view as well?

Answer: Good afternoon. As a general rule, KMAAG does not require that municipal audits be conducted in accordance with Government Auditing Standards (the Yellow Book). However, the revised/proposed KMAAG guidance would require GAS (the Yellow Book) to be used if the local unit of government is expending federal funds in an amount that would subject the entity to an A-133 Audit (Single Audit Act), or when a Federal or State agency mandates a GAS audit in a contractual arrangement with the municipality being audited. Under these circumstances the general guidance provided by the KMAAG would not supersede the federal or contractual requirements. If the triggers are not met by the municipality, then the Government Audit Standards, while not required, would be encouraged and acceptable so long as the other KMAAG requirements are met.

Hope this information helps. If you have additional questions or comments, please do not hesitate to ask.

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