



North Carolina Department of State Treasurer

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Memorandum #1021

June 11, 2004

To: Finance Officers of Counties, Municipalities, Boards of Education, Public Authorities, and Certified Public Accountants

From: T. Vance Holloman, Director, Fiscal Management Section

Subject: Amendment to Governmental Auditing Standards (Yellow Book) Paragraph 46
Interpretation of Continuing Education and Training Requirements (April 1991) and
Clarification of Yellow Book Independence Standards

The U. S. General Accounting Office (GAO) has issued an internet notice that rescinds portions of par. 46 of the *Interpretation of Continuing Education and Training Requirements* (April 1991) and issued revised guidance to replace this paragraph. Effective immediately, GAO has deleted inclusion of taxation in the listing of subjects and topics that would always satisfy the 80-hour requirement. In addition, GAO has also rescinded the following section of par. 46: "...instruction in subjects and topics that meet the CPE requirements of licensing bodies (such as state boards of accountancy) or professional organizations (such as the American Institute of Certified Public Accountants (AICPA) or the Institute of Internal Auditors) would also satisfy the 80-hour CPE requirement."

The change follows the issuance of the revised Governmental Auditing Standards in June 2003. Among the many changes were modifications to CPE requirements. Auditors that perform audits under GAGAS standards should complete, every two years, at least 80 hours of CPE that directly enhances the auditor's professional proficiency to perform audits (paragraph 3.45). The 2003 Yellow Book requirements became effective for audits of periods ending on or after January 1, 2004. If an audit organization's 2-year CPE compliance was for calendar year 2003-2004, then taxation CPE taken during 2003 would generally count for GAGAS CPE courses since the 1994 standards were in effect during 2003.

According to GAO, professional judgment may be used in determining whether training qualifies under GAGAS. If taxation relates to an objective of an audit conducted under GAGAS, certain training in taxation could possible qualify as CPE under Yellow Book. Training in public administration or legislative matters might not qualify under requirements established by a licensing body or certain professional organizations, but may qualify as GAGAS CPE.

Our office has been asked to whether certain tax courses would relate to an objective of an audit conducted under Yellow Book and therefore be allowed. In our opinion, courses that cover the

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proper reporting taxes on W2s or 1099s may be allowed. According to GAO, tax courses would count if they directly enhance an auditor's professional proficiency to perform audits. If an auditor performed an audit government auditing standards and taxation were a component of the audit or engagement, then the course would qualify as CPE under the 2003 Yellow Book. It should be emphasized that professional judgment should be used in determining whether a specific tax course qualifies under GAGAS.

GAO is in the process of revising *Interpretation of Continuing Education and Training Requirements* (April 1991). The Internet notice may be found on www.gao.gov/govaud/cpeamend.htm

Clarification of Revised GAO Independence Standards: Providing bookkeeping service for a component unit by the auditor the primary government: This office asked GAO about a situation in which an auditor performs bookkeeping services for a discretely presented component unit and audits the primary government under the revised GAO independence standards. Would performing those services impair the auditor's independence when auditing the primary government? This was specifically addressing whether an auditor of a county could do the bookkeeping for an ABC board. As reported in LGC Memorandum #1016, we were told if the component unit were material to the financial statement of the primary government, the auditor's independence would be impaired.

Recently, GAO has indicated to us that there is a way in which this could be done without impairing the independence of the primary government's auditor. If the primary government's auditor states in the auditor's report that they did not audit the component and relied solely upon the work of the component unit's auditor in issuing their opinion on the financial statements of the primary government, the independence of the primary government's auditor would not be impaired.

Component units, especially ABC Boards, usually do not have the same type of audit performed. The component unit's audit may have been performed in accordance with generally accepted auditing standards (GAAS) only, while the primary government may have a Yellow Book or Single Audit. If this is the case, the independent auditor's report and the compliance reports for the primary government should disclose that the component unit's audit was performed in accordance with GAAS only. Examples of this will be included in the Audit Manual for Governmental Auditors in North Carolina.

If you have a question or comment concerning this memo, please direct to Jim Burke at (919) 807-2389 or james.burke@treasurer.state.nc.us.