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

From: T. Vance Holloman, Director
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Subject: *Governmental Auditing Standards* (Yellow Book) revisions to Continuing Professional Education Requirements

The Governmental Accountability Office (GAO) recently issued *Governmental Auditing Standards (GAS): Guidance on GAGAS Requirements of Continuing Professional Education (CPE)*, April 2005, which provides guidance to auditors and audit organizations in implementing the CPE requirements prescribed by the 2003 revision of *Governmental Auditing Standards*. This guidance replaces the April 1991 document *Interpretation of Continuing Education and Training Requirements* and LGC Memorandums #716 (May 22, 1990) and #741 (June 24, 1991). The fundamental difference related from the 1994 GAS and the 2003 revisions is that the 80 hours of CPE to be completed every two years should "directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements." The 1994 revision call for training that "contributes to the auditor's professional proficiency." *GAS: Guidance on GAGAS Requirements of CPE* follows the October 2004 draft and includes a few changes.

Concurrently, GAO issued a technical amendment to *Governmental Auditing Standards*, paragraph 3.45 and the related footnote. Specifically auditors who are only involved in performing fieldwork and who charge less than 20 percent annually of their time to audits and attestation engagement conducted under generally accepted auditing standards (GAGAS) must meet the 24 hours requirement of training. These auditors are exempt from the remainder 80-hour requirement.

Both the *GAS: Guidance on GAGAS Requirements of CPE* and the technical amendment are effective for CPE measurement periods beginning on or after June 30, 2005.

This memo addresses the Yellow Book CPE requirements with an emphasis on the changes addressed in the April 2005 document and frequently asked questions received by the LGC from auditors.

Auditor's Competence

Eighty (80) hour and 24 hour requirements: GAGAS requires that each auditor assigned to planning, directing, performing fieldwork, or reporting on GAGAS audits or attestation engagements should complete every 2 years, at least 80 hours of CPE that directly enhances the auditor's professional proficiency to perform audits or attestation engagements.

At least 24 of the 80 hours of CPE should be in subjects directly related to governmental auditing, governmental environment, or the specific or unique environment in which the audited entity operates. At least 20 hours of the 80 must be completed in any 1 year of the 2-year period. Auditors may not carry over CPE earned in excess of the 80- and 24- hour requirements from one period to the next. Any of the 24-hours may be met in one year.

The GAGAS Competence standard places responsibility on the audit organization to ensure that each audit engagement is performed by a team that taken as a whole possesses the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. In selecting suitable CPE, auditors are required to exercise professional judgment. The CPE requirements apply to GAGAS auditors whether they are full- or part-time.

Auditors assigned to planning, directing, performing fieldwork, or reporting on GAGAS audits or attestation engagements should meet both the 80 hour and the 24 hour CPE requirements. The terms are defined as follows:

- **Planning:** Determining audit objectives, scope, and methodology; establishing criteria to evaluate matters subject to audit; or coordinating the work of other audit organizations. This definition excludes individuals whose role is limited solely to gathering information used in planning the audit.
- **Directing:** Supervising the efforts of others who are involved in accomplishing the objectives of the audit or reviewing audit work to determine whether those objectives have been accomplished.
- **Performing Field Work:** Conducting audit tests and procedures necessary to accomplish the audit objectives in accordance with GAGAS.
- **Reporting:** Determining the report contents and substance or reviewing reports to determine whether the audit objectives have been accomplished and the evidence supports the report's technical content and substance prior to issuance. This includes those who review engagement quality prior to issuing the report and those signing the report.

Partial Exemption for Auditors who are only involved in performing fieldwork. Auditors who only perform fieldwork duties, and who charge less than 20 percent of their time annually to audits and attestations conducted in accordance with GAGAS, must comply with the 24-hour requirement. These auditors are exempt from the remainder of the 80-hour CPE requirement. The 20 percent may be based on historical or estimated charges in a year, provided that the audit organization has a basis for this determination and monitors actual time.

The audit organization, at its discretion, may grant exceptions from a portion of the CPE requirements in the event of extended absences or other extenuating circumstances if situations such as the following prevent an auditor from fulfilling those requirements: ill health, maternity or paternity leave, extended family leave, sabbaticals, leaves without pay absences, foreign residency, military service, or disasters. Exceptions should not be granted for reasons such as workload, budget, or travel constraints. The specific exception granted must be documented by the audit organization and retained for an appropriate period of time determined by the professional judgment of the auditor.

Measurement of Compliance for Partial Periods

The GAO changes the calculation for pro rated number of hours for periods other than 2-year periods to a prorated approach based on 6-month intervals. This may be necessary as a result of a newly hired auditor or an auditor newly assigned to yellow book audits. An audit organization should define a prorated number of hours based on the number of full 6-months intervals remaining in the CPE period. For example, the audit organization assigns a new staff person to yellow book audits in May 2005. The

organizations 2-year CPE period runs from January 1, 2005 through December 31, 2006. The prorated CPE calculations are as follows: Number of full 6-month intervals remaining in the 2-year CPE period is 3, therefore $3 \div 4$ (number of full 6 month interval periods in the full 2-year period) x 80 hours = 60 hours. The 24-hour requirement would be calculated similarly, $3 \div 4 \times 24 = 18$ hours. When the prorated number of hours is used to cover a partial 2-year CPE period, the 20 hour minimum would not apply.

When auditors are newly hired or newly assigned to yellow book audits and has earned some previous CPE, the audit organization has some flexibility. The audit organization may evaluate to what extent any CPE already taken in that period would satisfy yellow book CPE requirements or choose the pro rata approach.

An audit organization may use a measurement date other than the date it started its first GAGAS audit or attestation engagement, or the audit organization may choose to change its measurement date to coincide with a fiscal year or another reporting requirement, such as one established by a state licensing body or professional organization. An audit organization may establish a standard 2-year period for all its auditors, which can be either a fixed or rolling year basis. A fixed year measurement period would be the two year periods 2005-2006, 2007-2008, etc. while a rolling-year measurement period would be 2005-2006, 2006-2007, 2007-2008, etc.

Deficiency Make-up

At their discretion, the audit organization may give auditors who have not completed the required number of CPE hours for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency. Audit organization that grant the 2-month grace period should not allow auditors who have not satisfied the CPE requirements after the grace period to participate in Yellow Book audits until those requirements are satisfied. The audit organization should document any CPE hours completed toward a deficiency in the CPE records and be careful that these hours are not counted toward the requirements toward the next two year period.

What Qualifies As Acceptable CPE?

Programs and activities that provide auditors CPE should have learning objectives designed to maintain or enhance participants' knowledge and skills in area applicable to performing audits or attestation engagements, including subjects directly applicable to governmental auditing, governmental environment, or the specific or unique environment in which the audited entity operates.

Audio conferences and web-based courses and courses given though the internet web-casts, and televised presentations have been added by the GAO as allowable programs and activities that qualify for CPE, provided they are in subjects and topics allowed by GAO (see page 6).

Group programs and activities that continue to qualify for CPE are: internal training programs, education and development programs presented at conferences/conventions/meetings/seminars and meetings or workshops of professional organizations, training programs presented by other audit organizations/educational organizations/foundations and associations, accredited university and college courses (credit and noncredit), and audit organization staff meetings when a structured educational program with learning objectives is presented.

Correspondence courses, self-study guides, workbooks, and courses given through audio cassette tapes, videotapes, and computers can qualify for CPE credit as well. Certain other professional activities qualify for CPE credit. CPE is earned for serving as a speaker, instructor, or discussion leader at group programs that qualify for CPE hours and that contribute directly to the author's professional proficiency.

Qualifying and Non-Qualifying Subjects and Topics for CPE

An individual's particular audit area will determine which CPE programs will qualify for credit. Auditors should apply professional judgment and consult appropriate officials within their audit organization in selection CPE programs. Examples of subjects and topics that may qualify as acceptable are listed on page 6.

Programs and Activities that do not qualify for CPE hours under GAGAS are on-the-job training and basic courses in subjects and topics in which the auditor already has knowledge and skills. Programs that are designed for general purpose development, such as resume writing; personal investments, money management, and retirement planning do not qualify. Other programs that do not qualify are those that provide training on the audit organization's administrative operations, or programs that demonstrate the use of office equipment or software that is not used in conducting audits.

Preparation and presentation time for repeated presentations of programs on the same subject matter within the 2-year period is not allowed for CPE hours unless it can be demonstrated that the content was changed or adapted such that additional study or research was needed prior to presenting the course. Also, business sessions at professional organization conferences, conventions, and meetings; conducting external quality control reviews; and sitting for professional certification examinations do not qualify.

Some subjects and topics may be acceptable to state licensing bodies or professional organizations, but may not qualify as CPE under GAGAS, such as certain training in taxation, personal financial planning and investment, estate planning, taxation strategies, estate planning, retirement planning, practice management, etc. Conversely, some CPE that qualifies for GAGAS may not qualify for state licensing bodies or professional organizations.

Meeting CPE Hours

A CPE hour will be granted for each 50 minutes of participation in programs and activities that qualifies. The GAO's revised requirements for CPE now grant one-half hour increments (equal to 25 minutes) may also be granted after the first CPE hour has been earned in a given program or activity. At conferences and training classes where the length of individual presentations or sessions are other than 50 minutes, the sum of the presentations or sessions should be considered as one total program. For example, two 50-minute, and three 40-minute presentations equal 400 minutes or 8 CPE hours. When the total minutes of a presentation are in excess of 50 minutes, but is not equally divisible by 50, the CPE hours should be rounded down to the nearest one-half hour.

For university or college credit courses, each semester hour will equal fifteen CPE hours, and each quarter hour will equal ten CPE hours. For individual study programs where successful completion is measured by an examination, participants must pass with at least a 70 percent before receiving CPE credit for the course. Participants in other individual-study programs should be granted CPE hours when they satisfactorily complete the requirements for the self-study program. The number of hours granted as CPE hours should be based on the CPE provider's recommended number of CPE hours for the program.

Speakers, instructors, and discussion leaders at programs that qualify for CPE and individuals who develop or write the course material should receive CPE hours for preparation and presentation time to the extent the subject matter contributes directly to their professional proficiency to perform audits, including subjects directly applicable to government auditing, the governmental environment, or the specific or unique environment in which audited entities operate. One CPE hour should be granted for each 50 minutes of presentation time. Up to 2 additional hours of CPE may be granted for the developing, writing, or advance preparation for each 50 minutes of the presentation. So a discussion leader may receive 24 hours of CPE for a presentation of 400 minutes. Eight hours for the presentation

and 16 for the preparation. An individual cannot receive CPE hours for repeated presentations within a 2-year period, unless the subject matter changed significantly. An auditor is only allowed a maximum of 40 speaking related hours for any two-year period.

Articles, books, or CPE courses written by auditors on subjects and topics related to their expertise and/or work that contribute directly to professional proficiency will qualify for CPE hours in the year they are published. However, CPE hours for published writings should not exceed 20 hours for any two-year period.

How Are CPE Requirements To Be Administered?

The Yellow Book requires that audit organizations ensure that auditors meet the CPE requirements. The individual auditors and their audit organization are jointly responsible for seeking opportunities for CPE, for successful completion of CPE programs and activities, and documenting the CPE hours completed. In addition, the individual auditors, in conjunction with the organization, are responsible for monitoring their own progress towards meeting the CPE requirements, maintaining evidence of their attendance, and completion of CPE programs.

The audit organization's policies and procedures for CPE should identify all auditors required to meet CPE; provide auditors with the opportunity to attend CPE programs; assist auditors to determine which programs, activities, subjects, and topics qualify for CPE; document the number of CPE hours completed by each auditor; and monitor auditor compliance with the CPE requirements to ensure that auditors complete sufficient CPE in qualifying programs and topics.

The audit organization is responsible for maintaining documentation of the CPE hours completed by each auditor subject to CPE requirements. The audit organizations should include the name of the audit organization; the title of the training program, including subject matter or field of study; the dates attended for group programs or dates completed for individual study programs; and the number of CPE hours earned toward the 24-hour requirement.

Also the audit organization should maintain the following information, or have policies and procedures in place that would require the auditor to maintain this documentation: certificate or other evidence of completion from the CPE provider; documentation of CPE courses presented and/or copies of the course materials, along with a written statement supporting the number of CPE hours claimed; a copy of the published book, article, or materials that names the writer as author or contributor, a written statement from the writer supporting the number of CPE hours claimed, and the name and contact information of the publisher, if applicable. These responsibilities can be delegated to the auditor, but the organization must monitor to ensure that the hours earned by the auditors for CPE are supported by the documentation maintained by the auditors.

All CPE records should be maintained for an appropriate period of time to satisfy peer reviews and any other legal and administrative requirement. The audit organization should monitor CPE compliance through internal inspections and any other quality assurance monitoring activities.

A copy of the document GAO's *Governmental Auditing Standards: Guidance on GAGAS Requirements of Continuing Professional Education (CPE)* can be found on the GAO's web-site at www.gao.gov and choosing the government auditing standards (yellow book) link. If you have any question concerning the information in this memo, you may contact Jim Burke at 919-807-2389.

EXAMPLES OF SUBJECTS AND TOPICS THAT MAY QUALIFY AS ACCEPTABLE CPE

80-Hour Requirement – accounting principles and standards, acquisitions management, actuarial techniques and analysis, asset management, assessment and evaluation methodologies, audit methodologies, audit risk and materiality, audit standards, audit documentation preparation and review techniques and tools, budgeting, cash management, compilation and review of financial statements, computer security-including general and application controls, contracting procurement, corporate governance, cost accounting, current industry risks, data analysis, economics, enterprise risk management, ethics and independence, evaluation design, environment in which the audited entity operates, finance, financial analysis, financial management, financial reporting, financial statement analysis, forecast and projections, forensic auditing, fraud/waste/abuse/improper payments, human capital management, information systems management, information technology, internal control, internal control assessment, interviewing techniques, management and leadership, operations research, oral communications, organizational change management, pension and other employee benefits accounting, performance results/measurement and management, principles of management/supervision/leadership, program evaluation, project management, public finance, public policy and administration, quality control, research methods, sampling methods, social and political sciences, software applications used in conducting audits, statistical techniques and analysis, taxation (only when applicable to the subject matter of an audit), and writing.

24-Hour Requirement – Subjects and topics directly related to the government environment may include but are not limited to: economic conditions/fiscal trends and pressures facing the government entity, appropriations/accounting/budgeting/financial management/procurement/contracting and financial reporting in government, partnerships between governments/businesses and citizens, government ethics and independence, government program management, government financial management issues-such as debt collection/credit management/cash management/grant management/etc., legislative policies and procedures, relevant laws and regulations affecting government programs and the administrative aspects of those programs, compliance with laws and regulations, fraud/waste/abuse or improper payments affecting government entities, evolving issues of homeland security and safety of citizens, measuring and reporting the results of government programs, assessing trends among the population of citizens receiving government services, risk assessment and risk management for the government entity, global trends affecting the government environment, opportunities and challenges presented to the government by advances in science and technology, information technology developments and applications that affect or could affect the government entity or program, government transformation issues dealing with evaluating the role of government programs in the future and related to techniques for restructuring government entities - including streamlining operations/improving organizational efficiency, or outsourcing or privatizing certain functions or activities.

Subjects and topics directly related to the specific or unique environment of the entity under the audit may include but are not limited to: economic/operating/technical or regulatory developments in the specialized area in which the audited entity operates, current risks or major changes affecting the governmental environment, current fiscal trends and other developments affecting the entity or the government environment, and relevant laws and regulations.

When GAGAS is used in conjunction with standards used by other auditing standard-setting bodies such as Institute of Internal Auditors and Public Company Accounting Oversight Board, subjects and topics on standards with those bodies are relevant.

Other topics include relevant accounting standards and principles, such as Governmental Accounting Standards Board and Financial Accounting Standards Board, and special government audit requirements such as Single Audit Act as well as other laws and regulations covering audit requirements at the federal, state, or local level, or for recipients of federal contracts or grants.