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**Chat history**

**You said:**

**d24106786.pdf**

PDF

This is a copy of the most recent version of GAO's Yellow Book. I'd like you to read through this and then give me a summary of what it says about work related to internal controls in a performance audit.

**ChatGPT said:**

The GAO's Yellow Book provides several key guidelines regarding the role of internal controls in performance audits. Here's a summary:

1. **Significance of Internal Control**: Auditors must determine whether internal control is significant to the audit objectives and, if so, document that significance. This decision depends on factors such as the subject matter under audit, the expected findings, and the needs of report users.
2. **Understanding Internal Control**: If internal control is significant, auditors need to understand the system in place. This understanding may involve assessing both entity-level controls (overall processes and policies) and transaction-level controls (specific actions and processes) relevant to the audit objectives.
3. **Assessing Internal Control**: Auditors evaluate the design, implementation, and operating effectiveness of controls that are relevant to the audit. They should design audit procedures to assess these controls to the necessary extent for achieving the audit objectives. The assessment focuses on key controls, which are essential for achieving the entity’s objectives and ensuring risk mitigation.
4. **Control Deficiencies**: When deficiencies in internal control are identified, auditors evaluate their significance. These deficiencies could relate to ineffective design, poor implementation, or failures in operating effectiveness. Auditors should document and evaluate the impact of these deficiencies in relation to the audit's objectives.
5. **Documentation and Reporting**: Auditors must document the scope of their internal control assessments and report any significant deficiencies. If internal control is a significant factor in the audit, the report should clearly outline the scope of the controls reviewed, the deficiencies identified, and their impact on the audit findings.

This process ensures that internal control is properly evaluated and any risks or weaknesses that could affect program effectiveness, efficiency, or compliance are identified and reported.

**Sources**

**You said:**

Can you add the number of each specific standard that you are citing in your summary?

**ChatGPT said:**

Here is the summary of the role of internal controls in a performance audit, with the specific standards from the GAO Yellow Book cited:

1. **Significance of Internal Control**: Auditors must determine whether internal control is significant to the audit objectives. This decision depends on the subject matter, expected findings, and user needs (Standards **8.39–8.40**). Auditors are required to document whether internal control is significant to the audit objectives (Standard **8.42**).
2. **Understanding Internal Control**: If internal control is significant, auditors need to understand the entity’s system. This involves evaluating both entity-level and transaction-level controls relevant to the objectives (Standard **8.44**). Auditors should identify the key internal controls that relate to the specific audit objectives (Standard **8.43**).
3. **Assessing Internal Control**: Auditors assess the design, implementation, and operating effectiveness of relevant controls. The audit procedures should be designed to assess key controls that mitigate risks (Standards **8.46–8.48**). The assessment focuses on internal controls related to the achievement of the entity’s objectives (Standard **8.45**).
4. **Control Deficiencies**: Deficiencies in internal control are evaluated for their significance, especially those related to ineffective design or poor implementation (Standards **8.50–8.51**). Auditors should document and evaluate how deficiencies impact the audit objectives (Standard **8.52**).
5. **Documentation and Reporting**: Auditors are required to document the scope of their internal control assessments and include significant deficiencies in their reports. If internal control is a significant aspect of the audit, the report should clearly explain the scope of the assessment and any deficiencies identified (Standards **8.42, 9.30, 9.34**).

These standards ensure that internal control is adequately addressed in performance audits, helping to identify risks or weaknesses affecting program effectiveness and compliance.

**You said:**

I'd like to record a podcast about the internal control requirements. Please prepare a script where two auditors (one female, one male) are discussing the requirements. If possible, please have them include some examples of internal control work in a performance audit. I'd like the podcast to last about 5 minutes. Also, to personalize this, give each auditor a name and have them address each other like they are friends.

**ChatGPT said:**

Here’s a 5-minute podcast script for two auditors discussing internal control requirements in a performance audit. The conversation is designed to be engaging and informative, with examples of internal control work.

**Podcast Title: "Inside Performance Audits – A Chat About Internal Controls"**

**Host Introduction (Optional)**

*Host:* Welcome to "Inside Performance Audits," where we break down the essentials of auditing for professionals and the curious alike. Today, we’re diving into internal controls in performance audits with two experienced auditors, Lisa and Mark. Let's join their conversation!

**[Scene opens with Lisa and Mark chatting over coffee.]**

**Lisa:**  
Hey Mark, I’ve been thinking a lot about internal controls in performance audits lately. It seems like such a critical part of our work but also one of the most complex areas to explain to clients. What’s your take on it?

**Mark:**  
Totally, Lisa! It’s one of those areas that can either make or break an audit. I mean, if we don’t assess internal controls properly, we might miss out on understanding how risks are managed within an organization. And for performance audits, it’s especially crucial since it ties directly into program effectiveness.

**Lisa:**  
Exactly! And that’s why the *Yellow Book*—the Government Auditing Standards—gives such detailed guidance on internal controls for performance audits. We need to determine whether internal control is significant to the audit objectives and document our decisions. Do you remember the standards? It’s all laid out in **8.39 through 8.42**.

**Mark:**  
Right, and it’s not always obvious at first whether controls are significant. I always start by asking myself, “How critical are these controls to the program’s success?” For instance, if we’re auditing a health program’s effectiveness in delivering services, we need to see whether controls over service delivery processes are working as intended.

**Lisa:**  
That’s a great point. Take, for example, an audit I did recently on a city’s public works program. One of the audit objectives was to assess the program’s efficiency in completing projects on time. So, we needed to evaluate the internal controls over project management—like how they track timelines, manage resources, and approve changes. Those are all internal control areas that could significantly impact the program’s performance.

**Mark:**  
Yeah, that’s a solid example. And once we identify those key controls, we need to go deeper to understand them—like the **8.43–8.44** standards tell us. It’s about getting into both the *entity-level* and *transaction-level* controls. What’s the overall governance framework? And what about specific actions, like how they process invoices or manage contractor payments?

**Lisa:**  
Exactly. One of my favorite parts of this process is mapping out the internal controls—especially when they’re well-designed. But sometimes, they’re not. You know what I mean? That’s when we have to assess if these controls are properly implemented and working effectively, as per **8.46 to 8.48**.

**Mark:**  
Yeah, and that’s where things can get interesting! Like, I had this audit where the internal controls over budget monitoring looked good on paper, but when we tested them, we found that management wasn’t consistently reviewing variance reports. That’s a major operating deficiency, right?

**Lisa:**  
Oh, definitely! That’s the kind of deficiency that could lead to cost overruns without anyone realizing it. And when we find those, we have to evaluate their significance, as it says in **8.50–8.51**. Sometimes, a small lapse can have huge consequences.

**Mark:**  
Exactly. And after identifying the deficiencies, we document everything carefully, especially when we report back to the entity. If internal control is significant to the audit objectives, we have to include it in the final audit report, according to **9.30** and **9.34**.

**Lisa:**  
Right. And here’s something I find helps: giving clear examples in our reports. It’s easy for the client to get lost in the technical language, so I always try to explain the impact of control deficiencies in plain language. Like, instead of saying “internal control failure,” I’d explain how “inconsistent monitoring led to delays in project delivery.” Makes it more relatable, don’t you think?

**Mark:**  
Absolutely. Speaking of examples, I had a case where we audited an education program, and the control deficiencies were causing delays in distributing textbooks to schools. The controls around inventory management weren’t being followed, and as a result, some schools didn’t get their materials on time. That was a clear control failure affecting program outcomes.

**Lisa:**  
That’s a perfect example! And it ties back to the essence of performance audits—we’re looking at how well a program is meeting its goals, and internal controls are a huge part of that. Whether it’s about safeguarding resources or ensuring compliance, weak controls often explain why programs aren’t achieving their objectives.

**Mark:**  
Couldn’t agree more. Plus, when we report these findings, we need to be constructive. Identifying issues is only half the job—we also need to recommend improvements.

**Lisa:**  
Exactly! That’s why I love this work. We’re not just pointing out problems; we’re helping to improve how programs operate. And when internal controls work as they should, the program runs smoother, saves resources, and ultimately benefits the public.

**Mark:**  
Yep! So, whether we’re looking at a health program, public works, or education, strong internal controls are what keep things running efficiently and effectively.

**Lisa:**  
Totally. Well, I think that sums up our discussion on internal controls. We covered the key points from the *Yellow Book*, gave some solid examples, and hopefully made it a little easier to understand why this area is so critical in performance audits.

**Mark:**  
For sure, Lisa. It was fun chatting with you about this!

**Lisa:**  
Same here, Mark! Let’s grab coffee again soon—and maybe we can dive into audit evidence next time!

**[Outro Music]**

**Host (Optional):**  
Thanks for tuning in to "Inside Performance Audits"! We hope Lisa and Mark helped clarify the importance of internal controls in performance audits. If you enjoyed this episode, don’t forget to subscribe and join us for the next one!

This dialogue provides a friendly, professional discussion on internal controls, balancing technical details with relatable examples for your podcast audience.

Top of Form

Bottom of Form

ChatGPT can make mistakes. Check important info.