

Note: The following Yellow Book crosswalk includes all sections of the 2011 and 2018 versions (organized by 2011 section). The left column shows the 2011 section, with yellow highlights on words/phrases that were removed or reworded. The right column shows the corresponding 2018 section (as applicable) with words/phrases that were added highlighted in yellow.

Chapter 1 Government Auditing (2018)

Ref.	2011	Ref.	2018
n/a	NEW	1.01	<p>This chapter provides guidance for engagements conducted in accordance with generally accepted government auditing standards (GAGAS). This chapter also</p> <ul style="list-style-type: none"> a. explains the types of auditors and audit organizations that may employ GAGAS to conduct their work, b. identifies the types of engagements that may be conducted in accordance with GAGAS, and c. explains terminology that is commonly used in GAGAS.
1.01	<p>The concept of accountability for use of public resources and government authority is key to our nation’s governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.</p>	1.02	<p>The concept of accountability for use of public resources and government authority is key to our nation’s governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public effectively, efficiently, economically, ethically, and equitably within the context of the statutory boundaries of the specific government program.</p>
1.02	<p>As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations.¹ Legislators, oversight bodies, those charged with governance,² and the</p>	1.03	<p>As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight bodies, those charged with governance, and the public need</p>

	public need to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.		to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided effectively, efficiently, economically, ethically, and equitably.
	¹ See appendix I paragraph A1.08 for additional information on management’s responsibilities. ² See paragraphs A1.05 through A1.07 for additional discussion on the role of those charged with governance.		
1.03	Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. Audits ³ provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the audit .	1.05	Government auditing is essential in providing accountability to legislators, oversight bodies, those charged with governance, and the public. GAGAS engagements provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the engagement .
	³ See paragraph 1.07c for discussion of the term “audit” as it is used in chapters 1 through 3 and corresponding sections of the Appendix.		
1.04	The professional standards and guidance contained in this document, commonly referred to as generally accepted government auditing standards (GAGAS) , provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence. These standards are for use	1.06	The professional standards and guidance contained in this document provide a framework for conducting high-quality engagements with competence, integrity, objectivity, and independence. Auditors of government entities, entities that receive government awards, and other entities, as

	<p>by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits. Overall, GAGAS contains standards for audits, which are comprised of individual requirements that are identified by terminology as discussed in paragraphs 2.14 through 2.18. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, performance of the audit, and reporting.</p>		<p>required by law or regulation or as they, may use these standards. Overall, GAGAS contains standards for engagements comprising individual requirements that are identified by terminology as discussed in paragraphs 2.02 through 2.10. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, peer review, and conducting the engagement, and reporting.</p>
<p>1.05</p>	<p>Audits performed in accordance with GAGAS provide information used for oversight, accountability, transparency, and improvements of government programs and operations. GAGAS contains requirements and guidance to assist auditors in objectively acquiring and evaluating sufficient, appropriate evidence and reporting the results. When auditors perform their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability and transparency for resources and results.</p>	<p>1.07</p>	<p>Engagements conducted in accordance with GAGAS provide information used for oversight, accountability, transparency, and improvements of government programs and operations. GAGAS contains requirements and guidance to assist auditors in objectively obtaining and evaluating sufficient, appropriate evidence and reporting the results. When auditors conduct their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability and transparency for resources and results.</p>
<p>1.06</p>	<p>Provisions of laws, regulations, contracts, grant agreements, or policies frequently require audits be conducted in accordance with GAGAS. In addition, many auditors and audit organizations voluntarily choose to</p>	<p>1.08</p>	<p>Laws, regulations, contracts, grant agreements, and policies frequently require that engagements be conducted in accordance with GAGAS. In addition, many auditors and audit organizations voluntarily choose to conduct their</p>

	<p>perform their work in accordance with GAGAS. The requirements and guidance in GAGAS apply to audits of government entities, programs, activities, and functions, and of government assistance administered by contractors, nonprofit entities, and other nongovernmental entities when the use of GAGAS is required or is voluntarily followed.⁴</p>		<p>work in accordance with GAGAS. The requirements and guidance in GAGAS in totality apply to engagements pertaining to government entities, programs, activities, and functions, and to government assistance administered by contractors, nonprofit entities, and other nongovernmental entities when the use of GAGAS is required or voluntary adopted.</p>
	<p>⁴ See paragraphs A1.02 through A1.04 for discussion of laws, regulations, and guidelines that require use of GAGAS.</p>		
<p>1.07</p>	<p>This paragraph describes the use of the following terms in GAGAS.</p> <p>a. The term “auditor” as it is used throughout GAGAS describes individuals performing work in accordance with GAGAS (including audits and attestation engagements) regardless of job title. Therefore, individuals who may have the titles auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors in GAGAS.</p> <p>b. The term “audit organization” as it is used throughout GAGAS refers to government audit organizations as well as public accounting or other firms that perform audits and attestation engagements using GAGAS.</p> <p>c. The term “audit” as it is used in chapters 1 through 3 and corresponding sections of the Appendix refers to financial audits, attestation engagements, and performance audits conducted in accordance with GAGAS.</p>	<p>1.27</p>	<p>This paragraph describes certain terms used in GAGAS. When terminology differs from that used at an organization subject to GAGAS, auditors use professional judgment to determine if there is an equivalent term.⁹</p> <p>a. Attestation engagement: An examination, review, or agreed-upon procedures engagement conducted under the GAGAS attestation standards related to subject matter or an assertion that is the responsibility of another party.</p> <p>b. Audit: Either a financial audit or performance audit conducted in accordance with GAGAS.</p> <p>c. Audit organization: A government audit entity or a public accounting firm or other audit entity that conducts GAGAS engagements.</p> <p>d. Audit report: A report issued as a result of a financial audit, attestation engagement, review of financial statements, or performance audit conducted in accordance with GAGAS.</p> <p>e. Audited entity: The entity that is subject to a GAGAS engagement, whether that engagement</p>

<p>1.08</p>	<p>A government audit organization can be structurally located within or outside the</p>	<p>is a financial audit, attestation engagement, review of financial statements, or performance audit.</p> <p>f. Auditor: An individual assigned to planning, directing, performing engagement procedures, or reporting on GAGAS engagements (including work on audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors under GAGAS.</p> <p>g. Control objective: The aim or purpose of specified controls; control objectives address the risks related to achieving an entity's objectives.</p> <p>h. Engagement: A financial audit, attestation engagement, review of financial statements, or performance audit conducted in accordance with GAGAS.</p> <p>i. Engagement team (or audit team): Auditors assigned to planning, directing, performing engagement procedures, or reporting on GAGAS engagements.</p> <p>j. Engaging party: The party that engages the auditor to conduct the GAGAS engagement.</p> <p>k. Entity objective: What an entity wants to achieve; entity objectives are intended to meet the entity's mission, strategic plan, and goals and the requirements of applicable laws and regulations.</p> <p>l. External audit organization: An audit organization that issues reports to third parties</p>
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	<p>audited entity.⁵ Audit organizations that are external to the audited entity and report to third parties are considered to be external audit organizations. Audit organizations that are accountable to senior management and those charged with governance of the audited entity, and do not generally issue their reports to third parties external to the audited entity, are considered internal audit organizations.</p>		<p>external to the audited entity, either exclusively or in addition to issuing reports to senior management and those charged with governance of the audited entity. m. Internal audit organization: An audit organization that is accountable to senior management and those charged with governance of the audited entity and that does not generally issue reports to third parties external to the audited entity. n. Responsible party: The party responsible for a GAGAS engagement's subject matter. o. Review of financial statements: An engagement conducted under GAGAS for review of financial statements. p. Specialist: An individual or organization possessing special skill or knowledge in a particular field other than accounting or auditing that assists auditors in conducting engagements. A specialist may be either an internal specialist or an external specialist.</p>
	<p>⁴ See paragraphs A1.02 through A1.04 for discussion of laws, regulations, and guidelines that require use of GAGAS.</p>		<p>⁹ See the Glossary for an expanded list of terms used in GAGAS.</p>
	<p>⁵ See paragraph 1.19 for a discussion of objectivity and paragraphs 3.27 through 3.32 for requirements related to independence considerations for government auditors and audit organization structure.</p>		
<p>1.09</p>	<p>Some government audit organizations represent a unique hybrid of external auditing and internal auditing in their oversight role for the entities they audit. These audit</p>		

	<p>organizations have external reporting requirements consistent with the reporting requirements for external auditors while at the same time being part of their respective agencies. These audit organizations often have a dual reporting responsibility to their legislative body as well as to the agency head and management.</p>		
1.10	<p>The ethical principles presented in this section provide the foundation, discipline, and structure, as well as the climate that influence the application of GAGAS. This section sets forth fundamental principles rather than establishing specific standards or requirements.</p>	3.02	<p>The ethical principles presented in this section provide the foundation, discipline, and structure, as well as the environment, that influence the application of GAGAS.¹⁷</p>
			<p>¹⁷See para. 5.08 for a discussion of ethical requirements in an audit organization's system of quality control.</p>
1.11	<p>Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.</p>	3.03	<p>Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who perform their work in accordance with GAGAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.</p>

<p>1.12</p>	<p>Conducting audit work in accordance with ethical principles is a matter of personal and organizational responsibility. Ethical principles apply in preserving auditor independence,⁶ taking on only work that the audit organization is competent⁷ to perform, performing high-quality work, and following the applicable standards cited in the auditors' report. Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the auditors' report, including the public.</p>	<p>3.04</p>	<p>Performing audit work in accordance with ethical principles is a matter of personal and organizational responsibility. Ethical principles apply in preserving auditor independence,¹⁸ taking on only work that the audit organization is competent to perform,¹⁹ performing high-quality work, and following the applicable standards cited in the audit report. Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the audit report, including the public.</p>
	<p>⁶See paragraphs 3.02 through 3.59 for requirements related to independence. ⁷See paragraphs 3.69 through 3.81 for additional information on competence.</p>		<p>¹⁸See paras. 3.18 through 3.108 for requirements and guidance related to independence. ¹⁹See paras. 4.02 through 4.15 for additional information on competence.</p>
<p>1.13</p>	<p>Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct audits in accordance with GAGAS. For example, individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors employed by government entities may also be subject to government ethics laws and regulations.</p>	<p>3.05</p>	<p>Other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct engagements in accordance with GAGAS. For example, individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors employed by government entities may also be subject to government ethics laws and regulations.</p>

<p>1.14</p>	<p>The ethical principles that guide the work of auditors who conduct audits in accordance with GAGAS are</p> <ol style="list-style-type: none"> a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and positions; and e. professional behavior. 	<p>3.06</p>	<p>The ethical principles that guide the work of auditors who conduct engagements in accordance with GAGAS are</p> <ol style="list-style-type: none"> a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and positions; and e. professional behavior.
<p>1.15</p>	<p>The public interest is defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the government environment.</p>	<p>3.07</p>	<p>The public interest is defined as the collective well-being of the community of people and entities that the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities helps auditors serve the public interest and honor the public trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the government environment.</p>
<p>1.16</p>	<p>A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embodies the concept of accountability for public resources, which is fundamental to serving the public interest.</p>	<p>3.08</p>	<p>A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embodies the concept of accountability for public resources, which is fundamental to serving the public interest.</p>
<p>1.17</p>	<p>Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and</p>	<p>3.09</p>	<p>Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors performing their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with regard to</p>

	<p>nonideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.</p>		<p>audited entities and users of the audit reports. Within the constraints of applicable confidentiality laws, regulations, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the engagement are expected to be honest, candid, and constructive.</p>
1.18	<p>Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressures to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>	3.10	<p>Making decisions consistent with the public interest of the program or activity under audit is an important part of the principle of integrity. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, and other likely users. Auditors may also encounter pressures to inappropriately achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>
1.19	<p>The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes independence of mind and appearance when providing audits, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors'</p>	3.11	<p>Auditors' objectivity in discharging their professional responsibilities is the basis for the credibility of auditing in the government sector. Objectivity includes independence of mind and appearance when conducting engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the</p>

	responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity. ⁸		public. The concepts of objectivity and independence are closely related. Independence impairments affect auditors' objectivity. ²⁰
	⁸ See independence standards at paragraphs 3.02 through 3.59		²⁰ See paras. 3.18 through 3.108 for independence requirements and guidance.
1.20	Government information, resources, and positions are to be used for official purposes and not inappropriately for the auditor's personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.	3.12	Government information, resources, and positions are to be used for official purposes and not inappropriately for the auditors' personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.
1.21	In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance , exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal . Improperly disclosing any such information to third parties is not an acceptable practice.	3.13	In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. Exercising discretion in using information acquired in the course of auditors' duties is an important part in achieving this balance . Improperly disclosing any such information to third parties is not an acceptable practice.
1.22	Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an	3.14	Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities are

	important element in the public’s expectations for auditors.		important elements of the public’s expectations for auditors.
1.23	Misusing the position of an auditor for financial gain or other benefits violates an auditor’s fundamental responsibilities. An auditor’s credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor’s personal financial interests or those of an immediate or close family member; a general partner; an organization for which the auditor serves as an officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.	3.15	Misusing the auditor position for financial gain or other benefits violates an auditor’s fundamental responsibilities. An auditor’s credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor’s personal financial interests or those of an immediate or close family member; a general partner; an entity for which the auditor serves as an officer, director, trustee, or employee; or an entity with which the auditor is negotiating concerning future employment.
1.24	High expectations for the auditing profession include compliance with all relevant legal, regulatory, and professional obligations and avoidance of any conduct that might bring discredit to auditors’ work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors’ work was professionally deficient. Professional behavior includes auditors putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and professional standards.	3.16	High expectations for the auditing profession include complying with all relevant legal, regulatory, and professional obligations and avoiding any conduct that could bring discredit to auditors’ work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors’ work was professionally deficient. Professional behavior includes auditors putting forth an honest effort in performing their duties in accordance with the relevant technical and professional standards.
		1.12	GAGAS provides standards that are used by a wide range of auditors and audit organizations that audit government entities, entities that

		<p>receive government awards, and other entities. These auditors and audit organizations may also be subject to additional requirements unique to their environments. Examples of the various types of users who may be required or may elect to use GAGAS include the following:</p> <ul style="list-style-type: none">a. Contract auditors: audit organizations that specialize in conducting engagements pertaining to government acquisitions and contract administrationb. Certified public accounting firms: public accounting organizations in the private sector that provide audit, attestation, or review services under contract to government entities or recipients of government fundsc. Federal inspectors general: government audit organizations within federal agencies that conduct audits and investigations relating to the programs and operations of their agencies and issue reports both to agency management and to third parties external to the audited entityd. Federal agency internal auditors: internal government audit organizations associated with federal agencies that conduct engagements and investigations relating to the programs and operations of their agenciese. Municipal auditors: elected or appointed officials in government audit organizations in the United States at the city, county, and other local government levelsf. State auditors: elected or appointed officials in audit organizations in the
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			governments of the 50 states, the District of Columbia, and the U.S. territories g. Supreme audit institutions: national government audit organizations, in the United States or elsewhere, typically headed by a comptroller general or auditor general
		1.20	The objective of the auditor when performing a review of financial statements is to obtain limited assurance as a basis for reporting whether the auditor is aware of any material modifications that should be made to financial statements in order for the financial statements to be in accordance with the applicable financial reporting framework. A review of financial statements does not include obtaining an understanding of the entity's internal control, assessing fraud risk, or certain other procedures ordinarily performed in an audit. ⁸
			⁸ See AR-C section 90, Review of Financial Statements (AICPA, Professional Standards).
		1.28	GAGAS uses a format designed to allow auditors to quickly identify requirements and application guidance related to those requirements. GAGAS requirements are differentiated from application guidance by borders surrounding the text. The requirements within the borders are followed immediately by application guidance that relates directly to the preceding requirements. The auditors' responsibilities related to requirements and application guidance are discussed in paragraphs 2.02 through 2.10.

<p>2.01</p>	<p>This chapter establishes requirements and provides guidance for audits⁹ performed in accordance with generally accepted government auditing standards (GAGAS). This chapter also identifies the types of audits that may be performed in accordance with GAGAS, explains the terminology that GAGAS uses to identify requirements, explains the relationship between GAGAS and other professional standards, and provides requirements for stating compliance with GAGAS in the auditors' report.</p>	<p>2.01</p>	<p>This chapter establishes general requirements for complying with generally accepted government auditing standards (GAGAS) that are applicable to all GAGAS engagements. The information it contains relates to how auditors conducting GAGAS engagements identify and apply the requirements contained in GAGAS. The chapter also contains requirements for using other audit standards in conjunction with GAGAS and for reporting compliance with GAGAS in the audit report.</p>
	<p>⁹ See paragraph 1.07c for discussion of the term "audit" as it is used in chapters 1 through 3 and corresponding sections of the Appendix.</p>		
<p>2.02</p>	<p>This section describes the types of audits that audit organizations may perform in accordance with GAGAS. This description is not intended to limit or require the types of audits that may be performed in accordance with GAGAS.</p>	<p>1.13</p>	<p>This section describes the types of engagements that audit organizations may conduct in accordance with GAGAS. This description is not intended to limit or require the types of engagements that may be conducted in accordance with GAGAS.</p>
<p>2.03</p>	<p>All audits begin with objectives, and those objectives determine the type of audit to be performed and the applicable standards to be followed. The types of audits that are covered by GAGAS, as defined by their objectives, are classified in this document as financial audits, attestation engagements, and performance audits.</p>	<p>1.14</p>	<p>All GAGAS engagements begin with objectives, and those objectives determine the type of engagement to be conducted and the applicable standards to be followed. This document classifies financial audits, attestation engagements, reviews of financial statements, and performance audits, as defined by their objectives, as the types of engagements that are covered by GAGAS.</p>
<p>2.04</p>	<p>In some audits, the standards applicable to the specific objective will be apparent. For</p>	<p>1.15</p>	<p>In some GAGAS engagements, the standards applicable to the specific objective will be</p>

	<p>example, if the objective is to express an opinion on financial statements, the standards for financial audits apply. However, some audits may have multiple or overlapping objectives. For example, if the objectives are to determine the reliability of performance measures, this work can be done in accordance with either the standards for attestation engagements or performance audits. In cases in which there is a choice between applicable standards, auditors should evaluate users' needs and the auditors' knowledge, skills, and experience in deciding which standards to follow.</p>		<p>apparent. For example, if the objective is to express an opinion on financial statements, the standards for financial audits apply. However, some engagements may have objectives that could be met using more than one approach. For example, if the objective is to determine the reliability of performance measures, auditors can perform this work in accordance with either the standards for attestation engagements or performance audits.</p>
<p>2.05</p>	<p>GAGAS requirements apply to the types of audits that may be performed in accordance with GAGAS as follows: a. Financial audits: the requirements and guidance in chapters 1 through 4 apply. b. Attestation engagements: the requirements and guidance in chapters 1 through 3, and 5 apply. c. Performance audits: the requirements and guidance in chapters 1 through 3, 6, and 7 apply.</p>	<p>1.16</p>	<p>GAGAS requirements and guidance apply to the types of engagements that auditors may conduct in accordance with GAGAS as follows: a. Financial audits: the requirements and guidance in chapters 1 through 6 apply. b. Attestation-level examination, review, and agreed-upon procedures engagements and reviews of financial statements: the requirements and guidance in chapters 1 through 5 and 7 apply. c. Performance audits: the requirements and guidance in chapters 1 through 5, 8, and 9 apply.</p>
<p>2.06</p>	<p>Appendix I includes supplemental guidance for auditors and audited entities to assist in the implementation of GAGAS. Appendix I does not establish auditor requirements but instead is intended to facilitate implementation of the standards contained in</p>		

	<p>chapters 2 through 7. Appendix II includes a flowchart which may assist in the application of the conceptual framework for independence.¹⁰</p>		
	<p>¹⁰See paragraphs 3.07 through 3.32 for discussion of the conceptual framework.</p>		
<p>2.07</p>	<p>Financial audits provide an independent assessment of whether an entity’s reported financial information (e.g., financial condition, results, and use of resources) are presented fairly in accordance with recognized criteria. Financial audits performed in accordance with GAGAS include financial statement audits and other related financial audits:</p> <p>a. Financial statement audits: The primary purpose of a financial statement audit is to provide an opinion about whether an entity’s financial statements are presented fairly in all material respects in conformity with an applicable financial reporting framework. Reporting on financial statement audits performed in accordance with GAGAS also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.</p> <p>b. Other types of financial audits: Other types of financial audits conducted in accordance with GAGAS entail various scopes of work, including: (1) obtaining sufficient, appropriate evidence to form an opinion on single financial statements,</p>	<p>1.17</p>	<p>Financial audits provide independent assessments of whether entities’ reported financial information (e.g., financial condition, results, and use of resources) is presented fairly, in all material respects, in accordance with recognized criteria. Financial audits conducted in accordance with GAGAS include financial statement audits and other related financial audits.</p> <p>a. Financial statement audits: The primary purpose of a financial statement audit is to provide financial statement users with an opinion by an auditor on whether an entity’s financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework. Reporting on financial statement audits conducted in accordance with GAGAS also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.</p> <p>b. Other types of financial audits: Other types of financial audits conducted in accordance with GAGAS entail various scopes of work, including (1) obtaining sufficient, appropriate evidence to</p>

	<p>specified elements, accounts, or items of a financial statement;¹¹ (2) issuing letters for underwriters and certain other requesting parties;¹² and (3) auditing compliance with applicable compliance requirements relating to one or more government programs .¹³</p>		<p>form an opinion on a single financial statement or specified elements, accounts, or line items of a financial statement;¹ (2) issuing letters (commonly referred to as comfort letters) for underwriters and certain other requesting parties;² (3) auditing applicable compliance and internal control requirements relating to one or more government programs;³ and (4) conducting an audit of internal control over financial reporting that is integrated with an audit of financial statements (integrated audit).⁴</p>
	<p>¹¹ See AICPA Codification of Statements on Auditing Standards for Auditing (AU) Section 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement. ¹² See AICPA AU Section 920 (ED of Proposed SAS), Letters for Underwriters and Certain Other Requesting Parties (Redrafted). ¹³ See AICPA AU Section 935, Compliance Audits.</p>		<p>¹ See AU-C section 805, Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (AICPA, Professional Standards). ² See AU-C section 920, Letters for Underwriters and Certain Other Requesting Parties (AICPA, Professional Standards). ³ See AU-C section 935, Compliance Audits (AICPA, Professional Standards). ⁴ See AU-C section 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements (AICPA, Professional Standards).</p>
<p>2.09</p>	<p>Attestation engagements can cover a broad range of financial or nonfinancial objectives about the subject matter or assertion depending on the users' needs.¹⁵ GAGAS incorporates by reference the AICPA's Statements on Standards for Attestation Engagements (SSAE).¹⁶ Additional requirements for performing attestation engagements in accordance with GAGAS are contained in chapter 5. The AICPA's standards recognize attestation engagements that result in an examination, a review, or an agreed-upon procedures report on a subject</p>	<p>1.18</p>	<p>1.18 Attestation engagements can cover a broad range of financial or nonfinancial objectives about the subject matter or assertion depending on the users' needs. In an attestation engagement, the subject matter or an assertion by a party other than the auditors is measured or evaluated in accordance with suitable criteria. The work the auditors perform and the level of assurance associated with the report vary based on the type of attestation engagement. The three types of attestation engagements are as follows:</p>

	<p>matter or on an assertion about a subject matter that is the responsibility of another party.¹⁷ The three types of attestation engagements are:</p> <p>a. Examination: Consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.</p> <p>b. Review: Consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. Auditors should not perform review-level work for reporting on internal control or compliance with provisions of laws and regulations.¹⁸</p> <p>c. Agreed-Upon Procedures: Consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. In an agreed-upon procedures engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.</p>	<p>a. Examination: An auditor obtains reasonable assurance by obtaining sufficient, appropriate evidence about the measurement or evaluation of subject matter against criteria in order to be able to draw reasonable conclusions on which to base the auditor's opinion about whether the subject matter is in accordance with (or based on) the criteria or the assertion is fairly stated, in all material respects. The auditor obtains the same level of assurance in an examination as in a financial statement audit.⁵</p> <p>b. Review: An auditor obtains limited assurance by obtaining sufficient, appropriate review evidence about the measurement or evaluation of subject matter against criteria in order to express a conclusion about whether any material modification should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or to the assertion in order for it to be fairly stated. Review-level work does not include reporting on internal control or compliance with provisions of laws, regulations, contracts, and grant agreements. The auditor obtains the same level of assurance in a review engagement as in a review of financial statements.⁶</p> <p>c. Agreed-upon procedures engagement: An auditor performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The specified parties to the engagement agree upon and are responsible for the sufficiency of the procedures for their purposes.</p>
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	<p>¹⁵ See A2.01 for examples of objectives for attestation engagements.</p> <p>¹⁶ See the AICPA Codification of Statements on Standards for Attestation Engagements for Attestation Engagements (AT) Sections.</p> <p>¹⁷ See AT Section 101, Attest Engagements and AT Section 201, Agreed-Upon Procedures Engagements.</p> <p>¹⁸ See AT Section 501, Reporting on an Entity's Internal Control Over Financial Reporting and AT Section 601, Compliance Attestation.</p>		<p>⁵ See AT-C section 205, Examination Engagements (AICPA, Professional Standards).</p> <p>⁶ See AT-C section 210, Review Engagements (AICPA, Professional Standards).</p> <p>⁷ See AT-C section 215, Agreed-Upon Procedures Engagements (AICPA, Professional Standards).</p>
2.10	<p>Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria.¹⁹ Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The term "program" is used in GAGAS to include government entities, organizations, programs, activities, and functions</p>	1.21	<p>Performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.</p>
	¹⁹ See paragraphs 6.37 and A6.02 for discussion of criteria		
2.11	<p>Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance</p>	1.22	<p>Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. Audit objectives may also pertain to the current status or condition of a program. These overall</p>

<p>audit may have more than one overall objective. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved. Examples of the various types of the performance audit objectives discussed below are included in Appendix I.20</p> <p>a. Program effectiveness and results audit objectives are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results.</p> <p>b. Internal control audit objectives relate to an assessment of one or more components of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control comprises the plans, policies, methods, and procedures</p>	<p>objectives are not mutually exclusive. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating the program's internal controls. Key categories of performance audit objectives include the following:</p> <p>a. Program effectiveness and results audit objectives. These are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results.</p> <p>b. Internal control audit objectives. These relate to an assessment of one or more aspects of an entity's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, or compliance with provisions of applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the</p>
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	<p>used to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance.²¹</p> <p>c. Compliance audit objectives relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, or grant agreements, or other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance requirements can be either financial or nonfinancial.</p> <p>d. Prospective analysis audit objectives provide analysis or conclusions about information that is based on assumptions about events that may occur in the future, along with possible actions that the entity may take in response to the future events.</p>		<p>mission, strategic plan, goals, and objectives of the entity.</p> <p>c. Compliance audit objectives. These relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, and grant agreements, or other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance requirements can be either financial or nonfinancial.</p> <p>d. Prospective analysis audit objectives. These provide analysis or conclusions about information that is based on assumptions about events that may occur in the future, along with possible actions that the entity may take in response to the future events.</p>
	<p>²⁰ See paragraphs A2.02 through A2.05 for discussion of performance audit objectives</p> <p>²¹ See paragraphs A.03 through A.04 for additional discussion of internal control</p>		
<p>2.12</p>	<p>GAGAS does not cover nonaudit services, which are defined as professional services other than audits or attestation engagements. Therefore, auditors do not report that the nonaudit services were conducted in</p>		

	accordance with GAGAS. When performing nonaudit services for an entity for which the audit organization performs a GAGAS audit, audit organizations should communicate with requestors and those charged with governance to clarify that the work performed does not constitute an audit conducted in accordance with GAGAS.		
2.13	When audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with the GAGAS independence standard. ²²		
	²² See paragraphs 3.02 through 3.59 for the GAGAS independence standard.		
2.14	GAGAS contains requirements together with related guidance in the form of application and other explanatory material. The terminology is consistent with the terminology defined in the AICPA's Codification of Statements on Auditing Standards. ²³ Auditors have a responsibility to consider the entire text of GAGAS in carrying out their work and in understanding and applying the requirements in GAGAS. Not every paragraph of GAGAS carries a requirement that auditors and audit organizations are expected to fulfill. Rather, the requirements	2.07	GAGAS contains requirements together with related explanatory material in the form of application guidance. Not every paragraph of GAGAS carries a requirement. Rather, GAGAS identifies the requirements through use of specific language. GAGAS also contains introductory material that provides context relevant to a proper understanding of a GAGAS chapter or section. Having an understanding of the entire text of applicable GAGAS includes an understanding of any financial audit, attestation, and reviews of financial statement standards incorporated by reference. ¹³

	describe these actions and procedures. The application and other explanatory material may also provide background information on matters addressed in GAGAS		
2.18	Auditors also use “interpretive publications” in planning and performing GAGAS audits. Interpretive publications are recommendations on the application of GAGAS in specific circumstances, including audits for entities in specialized industries. Interpretive publications, such as related GAGAS guidance documents and interpretations, are issued under the authority of the Government Accountability Office (GAO) to provide additional guidance on the application of GAGAS. ²⁵ Interpretive publications are not auditing standards, but have the same level of authority as application and other explanatory material in GAGAS.	2.06 2.10	Auditors should consider applicable GAO-issued GAGAS interpretive guidance in conducting and reporting on GAGAS engagements. ¹² Interpretive guidance is not auditing standards. Interpretive guidance provides guidance on the application of GAGAS and recommendations on the application of GAGAS in specific circumstances.
	²⁵ See http://www.gao.gov/yellowbook for a listing of related GAGAS interpretive publications.		¹² See http://www.gao.gov/yellowbook for GAGAS interpretive guidance.
2.19	Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies.	2.12	Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies.
2.08	GAGAS incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS). ¹⁴ Additional requirements for performing financial audits in accordance with GAGAS are contained in chapter 4. For financial audits performed in accordance with GAGAS, auditors should also comply with chapters 1 through 3.		

<p>2.20</p>	<p>The relationship between GAGAS and other professional standards for financial audits and attestation engagements is as follows:</p> <p>a. The AICPA has established professional standards that apply to financial audits and attestation engagements for nonissuers (entities other than issuers²⁶ under the Sarbanes- Oxley Act of 2002, such as privately held companies, nonprofit entities, and government entities) performed by certified public accountants (CPA). For financial audits and attestation engagements, GAGAS incorporates by reference AICPA standards, as discussed in paragraph 2.08.</p> <p>b. The International Auditing and Assurance Standards Board (IAASB) has established professional standards that apply to financial audits and assurance engagements. Auditors may elect to use the IAASB standards and the related International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAE) in conjunction with GAGAS.</p> <p>c. The Public Company Accounting Oversight Board (PCAOB) has established professional standards that apply to financial audits and attestation engagements for issuers (generally, publicly traded companies with a reporting obligation under the Securities Exchange Act of 1934). Auditors</p>	<p>2.13</p>	<p>The relationship between GAGAS and other professional standards for financial audits, attestation engagements, and reviews of financial statements is as follows:</p> <p>a. The American Institute of Certified Public Accountants (AICPA) has established professional standards that apply to financial audits, attestation engagements, and reviews of financial statements for nonissuers (entities other than issuers under the Sarbanes-Oxley Act of 2002,¹⁴ such as privately held companies, nonprofit entities, and government entities) conducted by certified public accountants (CPA). For financial audits and attestation engagements, GAGAS incorporates by reference AICPA Statements on Auditing Standards and Statements on Standards for Attestation Engagements.¹⁵ For reviews of financial statements, GAGAS incorporates by reference AR-C, section 90, Review of Financial Statements.¹⁶</p> <p>b. The International Auditing and Assurance Standards Board (IAASB) has established professional standards that apply to financial audits and assurance engagements. Auditors may elect to use the IAASB standards and the related International Standards on Auditing and International Standards on Assurance Engagements in conjunction with GAGAS.</p> <p>c. The Public Company Accounting Oversight Board (PCAOB) has established professional</p>
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	may elect to use the PCAOB standards in conjunction with GAGAS.		standards that apply to financial audits and attestation engagements for issuers. Auditors may elect to use the PCAOB standards in conjunction with GAGAS.
	¹⁴ See AICPA Codification of Statements on Auditing Standards and paragraph 2.20 for additional discussion on the relationship between GAGAS and other professional standards. References to the AICPA Codification of Statements on Auditing Standards use an “AU-C” identifier to refer to the clarified SASs instead of an “AU” identifier. “AU-C” is a temporary identifier to avoid confusion with references to existing “AU” sections, which remain effective through 2013. The “AUC” identifier will revert to “AU” in 2014 AICPA Codification of Statements on Auditing Standards, by which time the clarified SASs become fully effective for all engagements.		
	²⁶ See the Sarbanes-Oxley Act of 2002 (Public Law 107-204) for discussion of issuers.		¹⁴ See the Sarbanes-Oxley Act of 2002 (Public Law 107-204) for a discussion of issuers (generally, publicly traded companies with a reporting obligation under the Securities Exchange Act of 1934). ¹⁵ AICPA, Professional Standards. ¹⁶ AICPA, Professional Standards.
		2.14	For financial audits, attestation engagements, and reviews of financial statements, GAGAS does not incorporate the AICPA Code of Professional Conduct by reference, but recognizes that certain CPAs may use or may be required to use the code in conjunction with GAGAS.
2.21	For performance audits, GAGAS does not incorporate other standards by reference, but recognizes that auditors may use or may be required to use other professional standards in conjunction with GAGAS, such as the following:	2.15	For performance audits, GAGAS does not incorporate other standards by reference, but recognizes that auditors may use or may be required to use other professional standards in conjunction with GAGAS, such as the following:

	<p>a. International Standards for the Professional Practice of Internal Auditing, The Institute of Internal Auditors, Inc.;</p> <p>b. Guiding Principles for Evaluators, American Evaluation Association;</p> <p>c. The Program Evaluation Standards, Joint Committee on Standards for Education Evaluation;</p> <p>d. Standards for Educational and Psychological Testing, American Psychological Association; and</p> <p>e. IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals, ISACA.</p>		<p>a. International Standards for the Professional Practice of Internal Auditing, Institute of Internal Auditors, Inc.;</p> <p>b. International Standards of Supreme Audit Institutions, International Organization of Supreme Audit Institutions;</p> <p>c. Guiding Principles for Evaluators, American Evaluation Association;</p> <p>d. The Program Evaluation Standards, Joint Committee on Standards for Education Evaluation;</p> <p>e. Standards for Educational and Psychological Testing, American Psychological Association; and</p> <p>f. IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals, Information Systems Audit and Control Association.</p>
<p>2.22</p>	<p>When auditors cite compliance with both GAGAS and another set of standards, such as those listed in paragraphs 2.20 and 2.21, auditors should refer to paragraph 2.24 for the requirements for citing compliance with GAGAS. In addition to citing GAGAS, auditors may also cite the use of other standards in their reports when they have also met the requirements for citing compliance with the other standards.²⁷ Auditors should refer to the other set of</p>	<p>2.11</p>	<p>Requirement: Relationship between GAGAS and Other Professional Standards</p> <p>When auditors cite compliance with both GAGAS and another set of standards, such as those listed in paragraphs 2.13, 2.15, 6.01, and 7.01, auditors should refer to paragraph 2.17 for the requirements for citing compliance with GAGAS. In addition to citing GAGAS, auditors may also cite the use of other standards in their reports when they have also met the requirements for citing compliance with the other standards. Auditors should refer to the other set</p>

	standards for the basis for citing compliance with those standards		of standards for the basis for citing compliance with those standards.
	²⁷ See paragraphs 4.18, 5.19, 5.51, and 5.61 for additional requirements for citing compliance with standards of the AICPA.		
2.23	When auditors are required to perform an audit in accordance with GAGAS or are representing to others that they did so, they should cite compliance with GAGAS in the auditors' report as set forth in paragraphs 2.24 through 2.25 .	2.16	Requirements: Stating Compliance with GAGAS in the Audit Report When auditors are required to conduct an engagement in accordance with GAGAS or are representing to others that they did so, they should cite compliance with GAGAS in the audit report as set forth in paragraphs 2.17 through 2.19 .
2.24	Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS audits , as appropriate. ²⁸ a. Unmodified GAGAS compliance statement: Stating that the auditor performed the audit in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the auditors' report when they have (1) followed unconditional and applicable presumptively mandatory GAGAS requirements, or (2) have followed unconditional requirements, and documented justification for any departures from applicable presumptively mandatory requirements and have achieved the objectives of those requirements through other means. b. Modified GAGAS compliance statement: Stating either that (1) the auditor performed the audit in accordance with	2.17	Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS engagements , as appropriate a. Unmodified GAGAS compliance statement: Stating that the auditors conducted the engagement in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the audit report when they have (1) followed unconditional and applicable presumptively mandatory GAGAS requirements or (2) followed unconditional requirements, documented justification for any departures from applicable presumptively mandatory requirements, and achieved the objectives of those requirements through other means. b. Modified GAGAS compliance statement: Stating either that (1) the auditors conducted the engagement in accordance with GAGAS, except

	<p>GAGAS, except for specific applicable requirements that were not followed, or (2) because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit in accordance with GAGAS. Situations when auditors use modified compliance statements also include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected, or could have affected, the audit and the assurance provided.</p>	<p>2.18</p> <p>2.20</p>	<p>for specific applicable requirements that were not followed, or (2) because of the significance of the departure(s) from the requirements, the auditors were unable to and did not conduct the engagement in accordance with GAGAS.</p> <p>When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed, the reasons for not following the requirement(s), and how not following the requirement(s) affected or could have affected the engagement and the assurance provided.</p> <p>Situations for using modified compliance statements include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the engagement.</p>
	<p>²⁸ See paragraph A2.06 for additional discussion of GAGAS compliance statements</p>		
<p>2.25</p>	<p>When auditors do not comply with applicable requirement(s), they should (1) assess the significance of the noncompliance to the audit objectives, (2) document the assessment, along with their reasons for not following the requirement(s), and (3) determine the type of GAGAS compliance statement. The auditors' determination is a matter of professional judgment, which is affected by the significance of the requirement(s) not followed in relation to the audit objectives.</p>	<p>2.19</p> <p>2.21</p>	<p>When auditors do not comply with applicable requirement(s), they should (1) assess the significance of the noncompliance to the engagement objectives; (2) document the assessment, along with their reasons for not following the requirement(s); and (3) determine the type of GAGAS compliance statement.</p> <p>The auditors' determination of noncompliance with applicable requirements is a matter of professional judgment, which is affected by the significance of the requirement(s) not followed in relation to the engagement objectives.</p>

N/A		2.23	If an audit report is issued in situations described in paragraph 3.60 (except in circumstances discussed in paragraphs 3.25 or 3.84), a modified GAGAS compliance statement as discussed in paragraph 2.17b(2) is used.
3.01	This chapter establishes general standards and provides guidance for performing financial audits, attestation engagements, and performance audits under generally accepted government auditing standards (GAGAS). These general standards, along with the overarching ethical principles presented in chapter 1, establish a foundation for the credibility of auditors' work. These general standards emphasize the importance of the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of staff; and quality control and assurance.		
N/A	NEW	3.01	The first section of this chapter sets forth fundamental ethical principles for auditors in the government environment. The second section establishes independence standards and provides guidance on this topic for auditors conducting financial audits, attestation engagements, reviews of financial statements, and performance audits under generally accepted government auditing standards (GAGAS). This section emphasizes the importance of independence of the auditor and the audit organization. The third section

			establishes the standard for the auditor’s use of professional judgment and provides related application guidance. The requirements of this chapter are intended to be followed in conjunction with all other applicable GAGAS requirements.
3.02	In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.	3.18	In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity.
3.03	<p>Independence comprises:</p> <p>a. Independence of Mind The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.</p> <p>b. Independence in Appearance The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.</p>	3.21	<p>Independence comprises the following:</p> <p>a. Independence of mind: The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.</p> <p>b. Independence in appearance: The absence of circumstances that would cause a reasonable and informed third party to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.</p>
n/a	NEW	3.24	Under some conditions, the party requesting or requiring an engagement, referred to as the engaging party, will differ from the party responsible for the engagement’s subject matter, referred to as the responsible party. Under such conditions, the GAGAS independence requirements apply to the

			<p>relationship between the auditors and the responsible party, not the relationship between the auditors and the engaging party. The following are examples of conditions under which the party requesting an engagement may differ from the party responsible for the engagement's subject matter.</p> <p>a. A legislative body requires that auditors conduct, on the legislative body's behalf, a performance audit of program operations that are the responsibility of an executive agency. GAGAS requires that the auditors be independent of the executive agency.</p> <p>b. A state agency engages an independent public accountant to conduct an examination-level attestation engagement to assess the validity of certain information that a local government provided to the state agency. GAGAS requires that the independent public accountant be independent of the local government.</p> <p>c. A government department works with a government agency that conducts examination-level attestation engagements of contractor compliance with the terms and conditions of agreements between the department and the contractor. GAGAS requires that the auditors be independent of the contractors.</p>
<p>N/A</p>	<p>NEW</p>	<p>3.25</p>	<p>Auditors in government sometimes work under conditions that impair independence in accordance with this section. An example of such a circumstance is a threat created by a statutory requirement for auditors to serve in</p>

			official roles that conflict with the independence requirements of this section, such as a law that requires an auditor to serve as a voting member of an entity's management committee or board of directors, for which there are no safeguards to eliminate or reduce the threats to an acceptable level. Paragraph 2.17b provides standard language for modified GAGAS compliance statements for auditors who experience such impairments. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.
3.04	Auditors and audit organizations maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.	3.19 3.22	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. Auditors and audit organizations maintain their independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by reasonable and informed third parties.
3.05	Except under the limited circumstances discussed in paragraphs 3.47 and 3.48, auditors should be independent from an audited entity during:	3.20	Except under the limited circumstances discussed in paragraphs 3.66 and 3.67, auditors and audit organizations should be independent from an audited entity during

	<p>a. any period of time that falls within the period covered by the financial statements or subject matter of the audit, and</p> <p>b. the period of the professional engagement, which begins when the auditors either sign an initial engagement letter or other agreement to perform an audit or begins to perform an audit whichever is earlier. The period lasts for the entire duration of the professional relationship (which, for recurring audits, could cover many periods) and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year's audit or a subsequent audit with a similar objective.</p>	<p>3.23</p>	<p>a. any period of time that falls within the period covered by the financial statements or subject matter of the engagement and</p> <p>b. the period of professional engagement. The period of professional engagement begins when the auditors either sign an initial engagement letter or other agreement to conduct an engagement or begin to conduct an engagement, whichever is earlier. The period lasts for the duration of the professional relationship—which, for recurring engagements, could cover many periods—and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or with the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year's engagement or a subsequent engagement with a similar objective.</p>
<p>3.06</p>	<p>GAGAS's practical consideration of independence consists of four interrelated sections, providing:</p> <p>a. a conceptual framework for making independence determinations based on facts and circumstances that are often unique to specific environments;</p> <p>b. requirements for and guidance on independence for audit organizations that are</p>	<p>3.17</p>	<p>GAGAS's practical consideration of independence consists of four interrelated sections, providing</p> <p>a. general requirements and application guidance;</p> <p>b. requirements for and guidance on a conceptual framework for making independence determinations based on facts and circumstances that are often unique to specific environments;</p>

	<p>structurally located within the entities they audit;</p> <p>c. requirements for and guidance on independence for auditors performing nonaudit services, including indication of specific nonaudit services that always impair independence and others that would not normally impair independence; and</p> <p>d. requirements for and guidance on documentation necessary to support adequate consideration of auditor independence.</p>		<p>c. requirements for and guidance on independence for auditors providing nonaudit services, including identification of specific nonaudit services that always impair independence and others that would not normally impair independence; and</p> <p>d. requirements for and guidance on documentation necessary to support adequate consideration of auditor independence.</p>
3.07	<p>Many different circumstances, or combinations of circumstances, are relevant in evaluating threats to independence. Therefore, GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence.²⁹ The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. It can be applied to many variations in circumstances that create threats to independence and allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS.</p>	3.26	<p>Many different circumstances, or combinations of circumstances, are relevant in evaluating threats to independence. Therefore, GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. It can be applied to many variations in circumstances that create threats to independence and allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS.</p>
	<p>²⁹See Appendix II for a flowchart to assist in the application of the conceptual framework for independence.</p>		
3.08	<p>Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:</p> <p>a. identify threats to independence;</p>	3.27	<p>Auditors should apply the conceptual framework²¹ at the audit organization, engagement team, and individual auditor levels to</p>

	<p>b. evaluate the significance of the threats identified, both individually and in the aggregate; and</p> <p>c. apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.</p>		<p>a. identify threats to independence;</p> <p>b. evaluate the significance of the threats identified, both individually and in the aggregate; and</p> <p>c. apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.</p>
			<p>²¹See fig. 1 at the end of ch. 3 for a flowchart on applying the conceptual framework in accordance with GAGAS.</p>
3.09	<p>If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.</p>	3.59	<p>Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.</p>
3.10	<p>The use of the term “audit organization” in GAGAS is described in paragraph 1.07. For consideration of auditor independence, offices or units of an audit organization, or related or affiliated entities under common control, are not differentiated from one another. Consequently, for the purposes of independence evaluation using the conceptual framework, an audit organization that includes multiple offices or units, or includes multiple entities related or affiliated through common control, is considered to be one audit organization. Common ownership may also affect independence in appearance regardless of the level of control.</p>	3.35	<p>For consideration of auditor independence, offices or units of an audit organization, or related or affiliated entities under common control, are not differentiated from one another. Consequently, for the purposes of evaluating independence using the conceptual framework, an audit organization that includes multiple offices or units, or includes multiple entities related or affiliated through common control, is considered to be one audit organization. Common ownership may also affect independence in appearance regardless of the level of control.</p>
3.11	<p>The GAGAS section on nonaudit services in paragraphs 3.33 through 3.58 provides requirements and guidance on evaluating threats to independence related to nonaudit services provided by auditors to audited</p>	3.48	<p>The GAGAS section on nonaudit services in paragraphs 3.64 through 3.106 provides requirements and guidance on evaluating threats to independence related to nonaudit services that auditors provide to audited entities.</p>

	entities. That section also enumerates specific nonaudit services that always impair auditor independence with respect to audited entities and that auditors are prohibited from providing to audited entities.		That section also enumerates specific nonaudit services that always impair auditor independence with respect to audited entities and that auditors are prohibited from providing to audited entities.
3.12	The following sections discuss threats to independence, safeguards or controls to eliminate or reduce threats, and application of the conceptual framework for independence.		
	Threats		Application Guidance: Independence Impairments
3.13	Threats to independence are circumstances that could impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor’s professional judgment or create the appearance that the auditor’s professional judgment may be compromised, and on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. Threats are conditions to be evaluated using the conceptual framework. Threats do not necessarily impair independence.	3.61	Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor’s professional judgment or create the appearance that the auditor’s integrity, objectivity, or professional skepticism may be compromised, and the specific safeguards applied to eliminate the threat or reduce it to an acceptable level.
		3.37	Threats to independence may be created by a wide range of relationships and circumstances. Circumstances that result in a threat to independence in one of the categories may result in other threats as well.
3.14	Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate the following broad categories of threats to independence when threats are being identified and evaluated: ³⁰	3.30	Auditors should evaluate the following broad categories of threats to independence when applying the GAGAS conceptual framework: a. Self-interest threat: The threat that a financial or other interest will inappropriately influence an auditor’s judgment or behavior.

<p>a. Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor’s judgment or behavior;</p> <p>b. Self-review threat - the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit;</p> <p>c. Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;</p> <p>d. Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective;</p> <p>e. Undue influence threat - the threat that external influences or pressures will impact an auditor’s ability to make independent and objective judgments;</p> <p>f. Management participation threat - the threat that results from an auditor’s taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit; and</p> <p>g. Structural threat - the threat that an audit organization’s placement within a government entity, in combination with the</p>	<p>b. Self-review threat: The threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services provided as part of the nonaudit services when forming a judgment significant to a GAGAS engagement.</p> <p>c. Bias threat: The threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective.</p> <p>d. Familiarity threat: The threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective.</p> <p>e. Undue influence threat: The threat that influences or pressures from sources external to the audit organization will affect an auditor’s ability to make objective judgments.</p> <p>f. Management participation threat: The threat that results from an auditor’s taking on the role of management or otherwise performing management functions on behalf of the audited entity, which will lead an auditor to take a position that is not objective.</p> <p>g. Structural threat: The threat that an audit organization’s placement within a government entity, in combination with the structure of the government entity being audited, will affect the audit organization’s ability to perform work and report results objectively.</p>
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	structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.		
	³⁰ See A3.02 through A3.09 for further discussion and examples of threats		
3.15	Circumstances that result in a threat to independence in one of the above categories may result in other threats as well. For example, a circumstance resulting in a structural threat to independence may also expose auditors to undue influence and management participation threats.	3.37	Threats to independence may be created by a wide range of relationships and circumstances. Circumstances that result in a threat to independence in one of the categories may result in other threats as well.
N/A	NEW	3.62	If auditors conclude that an individual auditor's independence is impaired under paragraph 3.59, it may be necessary to terminate the engagement or it may be possible to take action that satisfactorily addresses the effect of the individual auditor's independence impairment.
N/A	NEW	3.63	Factors that are relevant in evaluating whether the independence of the engagement team or the audit organization is impaired by an individual auditor's independence impairment include <ul style="list-style-type: none"> a. the nature and duration of the individual auditor's impairment; b. the number and nature of any previous impairments with respect to the current engagement; c. whether a member of the engagement team had knowledge of the interest or relationship that caused the individual auditor's impairment; d. whether the individual auditor whose independence is impaired is (1) a member of the

			<p>engagement team or (2) another individual for whom there are independence requirements;</p> <p>e. the role of the individual auditor on the engagement team whose independence is impaired;</p> <p>f. the effect of the service, if any, on the accounting records or audited entity's financial statements if the individual auditor's impairment was caused by the provision of a nonaudit service;</p> <p>g. whether a partner or director of the audit organization had knowledge of the individual auditor's impairment and failed to ensure that the individual auditor's impairment was promptly communicated to an appropriate individual within the audit organization; and</p> <p>h. the extent of the self-interest, undue influence, or other threats created by the individual auditor's impairment.</p>
N/A	See paragraph 3.26 (2011) and 3.34 (2018)	3.64	<p>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.</p>
3.16	Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence. Under the conceptual framework, the auditor applies safeguards that address the specific facts and circumstances under which threats to independence exist. In some cases, multiple	3.49 3.51	<p>Safeguards are actions or other measures, individually or in combination, that auditors and audit organizations take that effectively eliminate threats to independence or reduce them to an acceptable level. Safeguards vary depending on the facts and circumstances.</p>

	<p>safeguards may be necessary to address a threat. The list of safeguards in this section provides examples that may be effective under certain circumstances. The list cannot provide safeguards for all circumstances. It may, however, provide a starting point for auditors who have identified threats to independence and are considering what safeguards could eliminate those threats or reduce them to an acceptable level.</p>		<p>The lists of safeguards in 3.50 and 3.69 cannot provide safeguards for all circumstances. They may, however, provide a starting point for auditors who have identified threats to independence and are considering what safeguards could eliminate those threats or reduce them to an acceptable level. In some cases, multiple safeguards may be necessary to address a threat.</p>
<p>3.17</p>	<p>Examples of safeguards include:</p> <ul style="list-style-type: none"> a. consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor; b. discussing independence issues with those charged with governance of the entity; c. disclosing to those charged with governance of the entity the nature of the audit and nonaudit services provided; d. involving another audit organization to perform or reperform part of the audit; and e. having a professional staff member who was not a member of the audit team review the work performed. 	<p>3.50</p>	<p>Examples of safeguards include</p> <ul style="list-style-type: none"> a. consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor to discuss engagement issues or assess issues that are highly technical or that require significant judgment; b. involving another audit organization to perform or re-perform part of the engagement; c. having an auditor who was not a member of the engagement team review the work performed; and d. removing an auditor from an engagement team when that auditor’s financial or other interests or relationships pose a threat to independence.
<p>3.18</p>	<p>Depending on the nature of the audit, an auditor may also be able to place limited reliance on safeguards that the entity has implemented. It is not possible to rely solely on such safeguards to eliminate threats or reduce them to an acceptable level.</p>		

<p>3.19</p>	<p>Examples of safeguards within the entity's systems and procedures include: a. an entity requirement that persons other than management ratify or approve the appointment of an audit organization to perform an audit; b. internal procedures at the entity that ensure objective choices in commissioning nonaudit services; and c. a governance structure at the entity that provides appropriate oversight and communications regarding the audit organization's services</p>		
<p>3.20</p>	<p>Auditors should evaluate threats to independence using the conceptual framework when the facts and circumstances under which the auditors perform their work may create or augment threats to independence. Auditors should evaluate threats both individually and in the aggregate because threats can have a cumulative effect on an auditor's independence.</p>	<p>3.45</p>	<p>Threats to independence are evaluated both individually and in the aggregate, as threats can have a cumulative effect on auditors' independence.</p>
<p>N/A</p>	<p>NEW</p>	<p>3.46</p>	<p>When evaluating threats to independence, an acceptable level is a level at which a reasonable and informed third party would likely conclude that the audit organization or auditor is independent. The concept of a reasonable and informed third party is a test that involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge, and experience to objectively evaluate the appropriateness of the auditor's judgments and conclusions. This evaluation entails weighing all</p>

			the relevant facts and circumstances, including any safeguards applied, that the auditor knows, or could reasonably be expected to know, at the time that the evaluation is made.
3.21	Facts and circumstances that create threats to independence can result from events such as the start of a new audit ; assignment of new staff to an ongoing audit ; and acceptance of a nonaudit service at an audited entity. Many other events can result in threats to independence. Auditors use professional judgment to determine whether the facts and circumstances created by an event warrant use of the conceptual framework. Whenever relevant new information about a threat to independence comes to the attention of the auditor during the audit, the auditor should evaluate the significance of the threat in accordance with the conceptual framework.	3.28	Auditors should reevaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level.
		3.36	Identifying Threats Facts and circumstances that create threats to independence can result from events such as the start of a new engagement , assignment of new personnel to an ongoing engagement , and acceptance of a nonaudit service for an audited entity.
		3.29	Auditors should use professional judgment when applying the conceptual framework.
3.22	Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level. A threat to independence is not acceptable if it either (a) could impact the auditor's ability to perform an audit without being affected by influences that compromise professional judgment or (b) could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to	3.47	A threat to independence is not at an acceptable level if it either a. could affect the auditors' ability to conduct an engagement without being affected by influences that compromise professional judgment or b. could expose the auditors or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit

	conclude that the integrity, objectivity, or professional skepticism of the audit organization, or a member of the audit team , had been compromised.		organization, or an auditor , had been compromised.
3.23	When an auditor identifies threats to independence and, based on an evaluation of those threats , determines that they are not at an acceptable level, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The auditor should exercise professional judgment in making that determination, and should take into account whether both independence of mind and independence in appearance are maintained. The auditor should evaluate both qualitative and quantitative factors when determining the significance of a threat.	3.32 3.31	When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level. Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level, considering both qualitative and quantitative factors to determine the significance of a threat.
3.24	In cases where threats to independence are not at an acceptable level, thereby requiring the application of safeguards, the auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.	3.33	In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
3.25	Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to	3.60	When auditors conclude that independence of the engagement team or the audit organization is impaired under paragraph 3.59, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84).

	<p>perform a prospective audit or terminate an audit in progress.³¹</p>		
	<p>³¹See paragraph 3.44 for a discussion of conditions under which an auditor may be required by law or regulation to perform both an audit and a nonaudit service and cannot decline to perform or terminate the service. See the discussion of nonaudit services beginning in paragraph 3.45 for consideration of threats related to nonaudit services that cannot be eliminated or reduced to an appropriate level.</p>		
<p>3.26</p>	<p>If a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAGAS compliance. If the auditors determine that the newly identified threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on findings or conclusions that were impacted by the threat to independence. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised</p>	<p>3.34</p>	<p>If auditors initially identify a threat to independence after the audit report is issued, auditors should evaluate the threat's effect on the engagement and on GAGAS compliance. If the auditors determine that the newly identified threat's effect on the engagement would have resulted in the audit report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the audit organization requiring or arranging for the engagements, and other known users, so that they do not continue to rely on findings or conclusions that were affected by the threat to independence. If auditors previously posted the report to their publicly accessible website, they should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional engagement work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the</p>

	findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.		additional engagement work does not result in a change in findings or conclusions.
3.27	The ability of audit organizations in government entities to perform work and report the results objectively can be affected by placement within government and the structure of the government entity being audited. The independence standard applies to auditors in government entities whether they report to third parties externally (external auditors), to senior management within the audited entity (internal auditors), or to both.	3.52	The ability of an audit organization structurally located in a government entity to perform work and report the results objectively can be affected by its placement within the government entity and the structure of the government entity being audited. The independence standard applies to auditors in both external audit organizations (reporting to third parties externally or to both internal and external parties) and internal audit organizations (reporting only to senior management within the audited entity). Such audit organizations are often subject to constitutional or statutory safeguards that mitigate the effects of structural threats to independence.
3.28	Audit organizations that are structurally located within government entities are often subject to constitutional or statutory safeguards that mitigate the effects of structural threats to independence. For external audit organizations, such safeguards may include governmental structures under which a government audit organization is: a. at a level of government other than the one of which the audited entity is part (federal, state, or local); for example, federal auditors auditing a state government program; or b. placed within a different branch of government from that of the audited entity; for example, legislative auditors auditing an executive branch program.	3.53	For external audit organizations, constitutional or statutory safeguards that mitigate the effects of structural threats to independence may include governmental structures under which a government audit organization is a. at a level of government other than the one of which the audited entity is part (federal, state, or local)—for example, federal auditors auditing a state government program—or b. placed within a different branch of government from that of the audited entity—for example, legislative auditors auditing an executive branch program.

<p>3.29</p>	<p>Safeguards other than those described above may mitigate threats resulting from governmental structures. For external auditors or auditors who report both externally and internally, structural threats may be mitigated if the head of an audit organization meets any of the following criteria in accordance with constitutional or statutory requirements:</p> <ul style="list-style-type: none"> a. directly elected by voters of the jurisdiction being audited; b. elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body; c. appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of audits to and is accountable to a legislative body; or d. appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and are outside the organization being audited. 	<p>3.54</p>	<p>Safeguards other than those described in paragraph 3.53 may mitigate threats resulting from governmental structures. For external audit organizations, structural threats may be mitigated if the head of the audit organization meets any of the following criteria in accordance with constitutional or statutory requirements:</p> <ul style="list-style-type: none"> a. directly elected by voters of the jurisdiction being audited; b. elected or appointed by a legislative body, subject to removal by a legislative body, and reporting the results of engagements to and accountable to a legislative body; c. appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of engagements to and is accountable to a legislative body; or d. appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and are outside the organization being audited.
<p>3.30</p>	<p>In addition to the criteria in paragraphs 3.28 and 3.29, GAGAS recognizes that there may be other organizational structures under which external audit organizations in government entities could be considered to</p>	<p>3.55</p>	<p>In addition to the criteria in paragraphs 3.53 and 3.54, GAGAS recognizes that there may be other organizational structures under which external audit organizations in government entities could be considered independent. If</p>

<p>be independent. If appropriately designed and implemented, these structures provide safeguards that prevent the audited entity from interfering with the audit organization’s ability to perform the work and report the results impartially. For an external audit organization or one that reports both externally and internally to be considered independent under a structure different from the ones listed in paragraphs 3.28 and 3.29, the audit organization should have all of the following safeguards. In such situations, the audit organization should document how each of the following safeguards was satisfied and provide the documentation to those performing quality control monitoring and to the external peer reviewers to determine whether all the necessary safeguards are in place. The safeguards indicated here may also be used to augment those listed in paragraphs 3.28 and 3.29.</p> <ul style="list-style-type: none"> a. statutory protections that prevent the audited entity from abolishing the audit organization; b. statutory protections that require that if the head of the audit organization is removed from office, the head of the agency reports this fact and the reasons for the removal to the legislative body; c. statutory protections that prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit; 	<p>appropriately designed and implemented, these structures provide safeguards that prevent the audited entity from interfering with the audit organization’s ability to perform the work and report the results impartially. An external audit organization may be structurally independent under a structure different from the ones listed in paragraphs 3.53 and 3.54 if the government audit organization is subject to all of the following constitutional or statutory provisions. The following constitutional or statutory provisions may also be used as safeguards to augment those listed in paragraphs 3.53 and 3.54:</p> <ul style="list-style-type: none"> a. protections that prevent the audited entity from abolishing the audit organization; b. protections requiring that if the head of the audit organization is removed from office, the head of the agency reports this fact and the reasons for the removal to the legislative body; c. protections that prevent the audited entity from interfering with the initiation, scope, timing, and completion of any engagement; d. protections that prevent the audited entity from interfering with audit reporting, including the findings and conclusions or the manner, means, or timing of the audit organization’s reports; e. protections that require the audit organization to report to a legislative body or other independent governing body on a recurring basis;
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	<p>a. is accountable to the head or deputy head of the government entity or to those charged with governance;</p> <p>b. reports the audit results both to the head or deputy head of the government entity and to those charged with governance;</p> <p>c. is located organizationally outside the staff or line-management function of the unit under audit;</p> <p>d. has access to those charged with governance; and</p> <p>e. is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.</p>		<p>the audit organization meets all of the following criteria:</p> <p>a. is accountable to the head or deputy head of the government entity or to those charged with governance;</p> <p>b. reports the engagement results both to the head or deputy head of the government entity and to those charged with governance;</p> <p>c. is located organizationally outside the staff or line management function of the unit under audit;</p> <p>d. has access to those charged with governance; and</p> <p>e. is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal.</p>
<p>3.32</p>	<p>When internal audit organizations perform audits of external parties such as auditing contractors or outside party agreements, and no impairments to independence exist, the audit organization can be considered independent as an external audit organization of those external parties.</p>	<p>3.58</p>	<p>When an internal audit organization conducts engagements pertaining to external parties, such as contractors or entities subject to other outside agreements, and no impairments to independence exist, the audit organization can be considered independent as an external audit organization of those external parties.</p>
<p>3.33</p>	<p>Auditors have traditionally provided a range of nonaudit services that are consistent with their skills and expertise to entities at which they perform audits. Providing such nonaudit services may create threats to an auditor's independence.</p>	<p>3.65</p>	<p>Auditors have traditionally provided a range of nonaudit services that are consistent with their skills and expertise. Providing nonaudit services to audited entities may create threats to the independence of auditors or audit organizations.</p>
<p>3.34</p>	<p>Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing</p>	<p>3.73</p>	<p>Before auditors agree to provide nonaudit services to an audited entity that the audited entity's management requested and that could</p>

	<p>g. accepting responsibility for designing, implementing, or maintaining internal control;</p> <p>h. providing services that are intended to be used as management’s primary basis for making decisions that are significant to the subject matter of the audit;</p> <p>i. developing an audited entity’s performance measurement system when that system is material or significant to the subject matter of the audit; and</p> <p>j. serving as a voting member of an audited entity’s management committee or board of directors.</p>		<p>h. providing services that are intended to be used as management’s primary basis for making decisions that are significant to the subject matter of the engagement;</p> <p>i. developing an audited entity’s performance measurement system when that system is material or significant to the subject matter of the engagement; and</p> <p>j. serving as a voting member of an audited entity’s management committee or board of directors.</p>
3.37	<p>Auditors performing nonaudit services for entities for which they perform audits should obtain assurance that audited entity management performs the following functions in connection with the nonaudit services:</p> <p>a. assumes all management responsibilities;</p> <p>b. oversees the services, by designating an individual, preferably within senior management, who possess suitable skill, knowledge, or experience;³²</p> <p>c. evaluates the adequacy and results of the services performed; and</p> <p>d. accepts responsibility for the results of the services.</p>	3.76	<p>Auditors providing nonaudit services to audited entities should obtain agreement from audited entity management that audited entity management performs the following functions in connection with the nonaudit services:</p> <p>a. assumes all management responsibilities;</p> <p>b. oversees the services, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience;</p> <p>c. evaluates the adequacy and results of the services provided; and</p> <p>d. accepts responsibility for the results of the services.</p>
	<p>³²See paragraph 3.34 for additional discussion of management’s ability to effectively oversee the nonaudit service.</p>		
3.38	<p>In cases where the audited entity is unable or unwilling to assume these responsibilities (for example, the audited entity does not have an</p>	3.75	<p>In cases where the audited entity is unable or unwilling to assume these responsibilities (for example, the audited entity does not have an</p>

	individual with suitable skill, knowledge, or experience to oversee the nonaudit services provided, or is unwilling to perform such functions due to lack of time or desire), the auditor's provision of these services would impair independence.		individual with suitable skill, knowledge, or experience to oversee the nonaudit services provided, or is unwilling to perform such functions because of lack of time or desire), auditors should conclude that the provision of these services is an impairment to independence.
3.39	In connection with nonaudit services, auditors should establish and document their understanding with the audited entity's management or those charged with governance, as appropriate, regarding the following: a. objectives of the nonaudit service; b. services to be performed; c. audited entity's acceptance of its responsibilities; d. the auditor's responsibilities; and e. any limitations of the nonaudit service.	3.77	In connection with nonaudit services, auditors should establish and document their understanding with the audited entity's management or those charged with governance, as appropriate, regarding the following: a. objectives of the nonaudit service, b. services to be provided, c. audited entity's acceptance of its responsibilities as discussed in paragraph 3.76, d. the auditors' responsibilities, and e. any limitations on the provision of nonaudit services.
3.40	Routine activities performed by auditors that relate directly to the performance of an audit, such as providing advice and responding to questions as part of an audit, are not considered nonaudit services under GAGAS. Such routine activities generally involve providing advice or assistance to the entity on an informal basis as part of an audit. Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product. However, activities such as financial	3.70	Routine activities that auditors perform related directly to conducting an engagement, such as providing advice and responding to questions as part of an engagement, are not considered nonaudit services under GAGAS. Such routine activities generally involve providing advice or assistance to the audited entity on an informal basis as part of an engagement. Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product. However, activities such as financial statement

	statement preparation, cash to accrual conversions, and reconciliations are considered nonaudit services under GAGAS, not routine activities related to the performance of an audit , and are evaluated using the conceptual framework as discussed in paragraph 3.46 .		preparation, cash-to-accrual conversions, and reconciliations are considered nonaudit services under GAGAS, not routine activities related to the performance of an engagement , and are evaluated using the conceptual framework as discussed in paragraphs 3.87 through 3.95 .
3.41	<p>Routine activities directly related to an audit include the following:</p> <ul style="list-style-type: none"> a. Providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit; b. Researching and responding to the audited entity's technical questions on relevant tax laws as an ancillary part of providing tax services; c. Providing advice to the audited entity on routine business matters; d. Educating the audited entity on matters within the technical expertise of the auditors; and e. Providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies. 	3.71	<p>Routine activities directly related to an engagement may include the following:</p> <ul style="list-style-type: none"> a. providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit; b. providing advice to the audited entity on routine business matters; c. educating the audited entity about matters within the technical expertise of the auditors; and d. providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies.
N/A	NEW	3.72	<p><i>Other Services Provided by Government Audit Organizations</i></p> <p>Audit organizations in government entities frequently provide services that differ from the traditional professional services that an accounting or consulting firm provides to or for an audited entity. These types of services are often provided in response to a statutory</p>

		<p>requirement, at the discretion of the authority of the audit organization, or to an engaging party (such as a legislative oversight body or an independent external organization) rather than a responsible party, and would generally not create a threat to independence. Examples of these types of services include the following:</p> <ul style="list-style-type: none">a. providing information or data to a requesting party without auditor evaluation or verification of the information or data;b. developing standards, methodologies, audit guides, audit programs, or criteria for use throughout the government or for use in certain specified situations;c. collaborating with other professional organizations to advance auditing of government entities and programs;d. developing question and answer documents to promote understanding of technical issues or standards;e. providing assistance and technical expertise to legislative bodies or independent external organizations;f. assisting legislative bodies by developing questions for use at hearings;g. providing training, speeches, and technical presentations;h. providing assistance in reviewing budget submissions;i. contracting for audit services on behalf of an audited entity and overseeing the audit contract, as long as the overarching principles are not violated and the auditor under contract reports
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			<p>to the audit organization and not to management; and</p> <p>j. providing audit, investigative, and oversight-related services that do not involve a GAGAS engagement, such as</p> <p>(1) investigations of alleged fraud, violation of contract provisions or grant agreements, or abuse;</p> <p>(2) periodic audit recommendation follow-up engagements and reports; and</p> <p>(3) identifying best practices or leading practices for use in advancing the practices of government organizations.</p>
<p>3.42</p>	<p>An auditor who previously performed nonaudit services for an entity that is a prospective subject of an audit should evaluate the impact of those nonaudit services on independence before accepting an audit. If the nonaudit services were performed in the period to be covered by the audit, the auditor should (1) determine if the nonaudit service is expressly prohibited by GAGAS and, if not, (2) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.</p>	<p>3.83</p>	<p>Auditors who previously provided nonaudit services for an entity that is a prospective subject of an engagement should evaluate the effect of those nonaudit services on independence before agreeing to conduct a GAGAS engagement. If auditors provided a nonaudit service in the period to be covered by the engagement, they should (1) determine if GAGAS expressly prohibits the nonaudit service; (2) if audited entity management requested the nonaudit service, determine whether the skills, knowledge, and experience of the individual responsible for overseeing the nonaudit service were sufficient; and (3) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.</p>

<p>3.43</p>	<p>Nonaudit services provided by auditors can impact independence of mind and in appearance in periods subsequent to the period in which the nonaudit service was provided. For example, if auditors have designed and implemented an accounting and financial reporting system that is expected to be in place for many years, a threat to independence in appearance for future financial audits or attestation engagements performed by those auditors may exist in subsequent periods. For recurring audits, having another independent audit organization perform an audit of the areas affected by the nonaudit service may provide a safeguard that allows the audit organization that provided the nonaudit service to mitigate the threat to its independence. Auditors use professional judgment to determine whether the safeguards adequately mitigate the threats.</p>	<p>3.68</p>	<p>Nonaudit services that auditors provide can affect independence of mind and in appearance in periods after the nonaudit services were provided. For example, if auditors have designed and implemented an accounting and financial reporting system that is expected to be in place for many years, a threat to independence in appearance may exist in subsequent periods for future engagements that those auditors conduct. For recurring engagements, having another independent audit organization conduct an engagement over the areas affected by the nonaudit service may provide a safeguard that allows the audit organization that provided the nonaudit service to mitigate the threat to its independence.</p>
<p>N/A</p>	<p>NEW</p>	<p>3.69</p>	<p>The following are examples of actions that in certain circumstances could be safeguards in addressing threats to independence related to nonaudit services:</p> <ul style="list-style-type: none"> a. not including individuals who provided the nonaudit service as engagement team members; b. having another auditor, not associated with the engagement, review the engagement and nonaudit work as appropriate; c. engaging another audit organization to evaluate the results of the nonaudit service; or

			d. having another audit organization re-perform the nonaudit service to the extent necessary to enable that other audit organization to take responsibility for the service.
3.44	An auditor in a government entity may be required to perform a nonaudit service that could impair the auditor’s independence with respect to a required audit. If the auditor cannot, as a consequence of constitutional or statutory requirements over which the auditor has no control, implement safeguards to reduce the resulting threat to an acceptable level, or decline to perform or terminate a nonaudit service that is incompatible with audit responsibilities, the auditor should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement accordingly. ³³	3.84	Auditors in a government entity may be required to provide a nonaudit service that impairs the auditors’ independence with respect to a required engagement. If, because of constitutional or statutory requirements over which they have no control, the auditors can neither implement safeguards to reduce the resulting threat to an acceptable level nor decline to provide or terminate a nonaudit service that is incompatible with engagement responsibilities, auditors should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement as discussed in paragraph 2.17b accordingly. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.
	³³ See paragraphs 2.24 and 2.25 for the discussion of modifications to the GAGAS compliance statement.		
3.45	By their nature, certain nonaudit services directly support the entity’s operations and impair auditors’ ability to maintain independence in mind and appearance. The nonaudit services discussed below are among those frequently requested of auditors working in a government environment. Some aspects of these services will impair an auditor’s ability to perform audits for the entities for which the services are provided.	3.85	By their nature, certain nonaudit services directly support an entity’s operations and, if provided to an audited entity, create a threat to the auditors’ ability to maintain independence in mind and appearance. Some aspects of these services will impair auditors’ ability to conduct GAGAS engagements for the entities to which the services are provided.

	The specific services indicated are not the only nonaudit services that would impair an auditor's independence.		
3.46	Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.49 through 3.58 without impairing independence if (1) the nonaudit services are not expressly prohibited, (2) the auditor has determined that the requirements for performing nonaudit services in paragraphs 3.34 through 3.44 have been met, and (3) any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards. Auditors should use the conceptual framework to evaluate independence given the facts and circumstances of individual services not specifically prohibited in this section.	3.86	Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.87 through 3.106 without impairing independence if (1) the nonaudit services are not expressly prohibited by GAGAS requirements, (2) the auditors have determined that the requirements for providing nonaudit services in paragraphs 3.73 through 3.78 and paragraph 3.83 have been met, and (3) any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards. The conceptual framework enables auditors to evaluate independence given the facts and circumstances of individual services that are not specifically prohibited.
3.47	For performance audits and agreed-upon procedures engagements, nonaudit services that are otherwise prohibited by GAGAS may be provided when such services do not relate to the specific subject matter of the engagement.	3.66	For performance audits and agreed-upon procedures engagements, nonaudit services that are otherwise prohibited by GAGAS may be provided when such services do not relate to the specific subject matter of the engagement.
3.48	For financial statement audits and examination or review engagements, a nonaudit service performed during the period covered by the financial statements may not impair an auditor's independence with respect to those financial statements provided that the following conditions exist:	3.67	For financial audits, examination or review engagements, and reviews of financial statements, a nonaudit service otherwise prohibited by GAGAS and provided during the period covered by the financial statements may not threaten independence with respect to those financial statements provided that the following conditions exist:

	<p>a. the nonaudit service was provided prior to the period of professional engagement;</p> <p>b. the nonaudit service related only to periods prior to the period covered by the financial statements; and</p> <p>c. the financial statements for the period to which the nonaudit service did relate were audited by another auditor (or in the case of an examination or review engagement, examined, reviewed, or audited by another auditor as appropriate).</p>		<p>a. the nonaudit service was provided prior to the period of professional engagement;</p> <p>b. the nonaudit service related only to periods prior to the period covered by the financial statements; and</p> <p>c. the financial statements for the period to which the nonaudit service did relate were audited by other auditors (or in the case of an examination, review, or review of financial statements, examined, reviewed, or audited by other auditors as appropriate).</p>
<p>3.49</p>	<p>If performed on behalf of an audited entity by the entity's auditor, management responsibilities such as those listed in paragraph 3.36 would create management participation threats so significant that no safeguards could reduce them to an acceptable level. Consequently the auditor's independence would be impaired with respect to that entity.</p>		
<p>3.50</p>	<p>Some services involving preparation of accounting records always impair an auditor's independence with respect to an audited entity. These services include:</p> <p>a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;</p> <p>b. authorizing or approving the entity's transactions; and</p>	<p>3.87</p>	<p>Auditors should conclude that the following services involving preparation of accounting records impair independence with respect to an audited entity:</p> <p>a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;</p> <p>b. authorizing or approving the entity's transactions; and</p> <p>c. preparing or making changes to source documents without management approval.</p>

	<p>c. posting entries that have been approved by an audited entity’s management to the entity’s trial balance;</p> <p>d. preparing account reconciliations that identify reconciling items for the audited entity management’s evaluation; and</p> <p>e. proposing standard, adjusting, or correcting journal entries or other changes affecting the financial statements to an audited entity’s management provided management reviews and accepts the entries and the auditor is satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements.</p>		<p>other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include</p> <p>a. recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity’s general ledger;</p> <p>b. preparing certain line items or sections of the financial statements based on information in the trial balance;</p> <p>c. posting entries that an audited entity’s management has approved to the entity’s trial balance; and</p> <p>d. preparing account reconciliations that identify reconciling items for the audited entity management’s evaluation.</p>
			<p>²²See fig. 2 at the end of ch. 3 for a flowchart on independence considerations for preparing accounting records and financial statements.</p>
<p>N/A</p>	<p>NEW</p>	<p>3.90</p>	<p>Auditors should evaluate the significance of threats to independence created by providing any services discussed in paragraph 3.89 and should document the evaluation of the significance of such threats.²³</p>
			<p>²³See para. 3.33 for additional requirements related to documenting threats identified and safeguards applied to eliminate or reduce threats to an acceptable level</p>
<p>N/A</p>	<p>NEW</p>	<p>3.93</p>	<p>Determining whether services, as discussed in paragraph 3.89, are significant threats and require safeguards is a matter of professional judgment.</p>

N/A	NEW	3.94	Factors that are relevant in evaluating the significance of any threats created by providing services as discussed in paragraph 3.89 include a. the extent to which the outcome of the service could have a material effect on the financial statements, b. the degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements, and c. the extent of the audited entity's involvement in determining significant matters of judgment.
N/A	NEW	3.95	Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat.
3.53	Internal audit assistance services involve assisting an entity in the performance of its internal audit activities. Certain internal audit assistance activities always impair an external auditor's independence with respect to an audited entity. These activities include: a. setting internal audit policies or the strategic direction of internal audit activities; b. performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges; and c. determining the scope of the internal audit function and resulting work.	3.96	Internal audit assistance services involve assisting an entity in performing its internal audit activities. Auditors should conclude that the following internal audit assistance activities impair an external auditor's independence with respect to an audited entity: a. setting internal audit policies or the strategic direction of internal audit activities; b. performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges; and c. determining the scope of the internal audit function and resulting work.
3.54	Accepting responsibility for designing, implementing or maintaining internal control includes accepting responsibility for designing, implementing, or maintaining	3.99	Accepting responsibility for designing, implementing, or maintaining internal control includes accepting responsibility for designing, implementing, or maintaining monitoring

	<p>monitoring procedures.³⁴ Monitoring involves the use of either ongoing monitoring procedures or separate evaluations to gather and analyze persuasive information supporting conclusions about the effectiveness of the internal control system. Ongoing monitoring procedures performed on behalf of management are built into the routine, recurring operating activities of an organization. Therefore, the management participation threat created if an auditor performs or supervises ongoing monitoring procedures is so significant that no safeguards could reduce the threat to an acceptable level.</p>	<p>3.97</p>	<p>procedures. Monitoring involves the use of either ongoing monitoring procedures or separate evaluations to gather and analyze persuasive information supporting conclusions about the effectiveness of the internal control system. Ongoing monitoring procedures performed on behalf of management are built into the routine, recurring operating activities of an entity.</p> <p>Auditors should conclude that providing or supervising ongoing monitoring procedures over an entity’s system of internal control impairs independence because the management participation threat created is so significant that no safeguards could reduce the threat to an acceptable level.</p>
	<p>³⁴See A.03 and A.04 for a discussion of internal control.</p>		
<p>3.55</p>	<p>Separate evaluations are sometimes performed as nonaudit services by individuals who are not directly involved in the operation of the controls being monitored. As such, it is possible for an auditor to provide an objective analysis of control effectiveness by performing separate evaluations without creating a management participation threat that would impair independence. However, in all such cases, the significance of the threat created by performing separate evaluations should be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Auditors</p>	<p>3.98</p> <p>3.100</p>	<p>Separate evaluations are sometimes provided as a nonaudit service. When providing separate evaluations as nonaudit services, auditors should evaluate the significance of the threat created by performing separate evaluations and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.</p> <p>Factors relevant to evaluating the significance of any threats created by providing separate evaluations as a nonaudit service include</p> <p>a. the frequency of the separate evaluations and</p>

			<p>c. supervising audited entity personnel in the daily operation of an audited entity's information system; or</p> <p>d. operating an audited entity's network, financial information system, or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement.</p>
3.57	<p>A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability, or an entity as a whole. If an audit organization provides valuation services to an audited entity and the valuations would have a material effect, separately or in the aggregate, on the financial statements or other information on which it is reporting, and the valuation involves a significant degree of subjectivity, the audit organization's independence would be impaired.</p>	<p>3.105</p> <p>3.104</p>	<p>A valuation comprises the making of assumptions with regard to future developments; the application of appropriate methodologies and techniques; and the combination of both to compute a certain value, or range of values, for an asset, a liability, or an entity as a whole.</p> <p>Auditors should conclude that independence is impaired if an audit organization provides appraisal, valuation, or actuarial services to an audited entity when (1) the services involve a significant degree of subjectivity and (2) the results of the service, individually or when combined with other valuation, appraisal, or actuarial services, are material to the audited entity's financial statements or other information on which the audit organization is reporting.</p>
3.58	<p>Provision of certain other nonaudit services always impairs an external auditor's independence with respect to an audited entity. These activities include:</p> <p>a. Non tax disbursement – prohibited nonaudit services</p>	3.106	<p>Auditors should conclude that providing certain other nonaudit services impairs an external auditor's independence with respect to an audited entity. These activities include the following:</p> <p>a. Advisory service</p> <p>(1) Assuming any management responsibilities</p>

<p>(1) Accepting responsibility to authorize payment of audited entity funds, electronically or otherwise.</p> <p>(2) Accepting responsibility for signing or cosigning audited entity checks, even if only in emergency situations.</p> <p>(3) Maintaining an audited entity's bank account or otherwise having custody of an audited entity's funds or making credit or banking decisions for the audited entity.</p> <p>(4) Approving vendor invoices for payment</p> <p>b. Benefit plan administration – prohibited nonaudit services</p> <p>(1) Making policy decisions on behalf of audited entity management.</p> <p>(2) When dealing with plan participants, interpreting the plan document on behalf of management without first obtaining management's concurrence.</p> <p>(3) Making disbursements on behalf of the plan.</p> <p>(4) Having custody of a plan's assets.</p> <p>(5) Serving a plan as a fiduciary as defined by the Employee Retirement Income Security Act (ERISA).</p> <p>c. Investment—advisory or management – prohibited nonaudit services</p> <p>(1) Making investment decisions on behalf of audited entity management or otherwise having discretionary authority over an audited entity's investments.</p> <p>(2) Executing a transaction to buy or sell an audited entity's investment.</p>	<p>b. Benefit plan administration</p> <p>(1) Making policy decisions on behalf of management</p> <p>(2) Interpreting the provisions in a plan document for a plan participant on behalf of management without first obtaining management's concurrence</p> <p>(3) Making disbursements on behalf of the plan</p> <p>(4) Having custody of the plan's assets</p> <p>(5) Serving in a fiduciary capacity, as defined under the Employee Retirement Income Security Act of 1974²⁴</p> <p>c. Business risk consulting</p> <p>(1) Making or approving business risk decisions</p> <p>(2) Presenting business risk considerations to those charged with governance on behalf of management</p> <p>d. Executive or employee recruiting</p> <p>(1) Committing the audited entity to employee compensation or benefit arrangements</p> <p>(2) Hiring or terminating the audited entity's employees</p> <p>e. Investment advisory or management</p> <p>(1) Making investment decisions on behalf of management or otherwise having discretionary authority over an audited entity's investments</p> <p>(2) Executing a transaction to buy or sell an audited entity's investments</p> <p>(3) Having custody of an audited entity's assets, such as taking temporary possession of securities</p>
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	<p>(3) Having custody of an audited entity's assets, such as taking temporary possession of securities purchased by an audited entity.</p> <p>d. Corporate finance—consulting or advisory – prohibited nonaudit services</p> <p>(1) Committing the audited entity to the terms of a transaction or consummating a transaction on behalf of the audited entity.</p> <p>(2) Acting as a promoter, underwriter, broker-dealer, or guarantor of audited entity securities, or distributor of private placement memoranda or offering documents.</p> <p>(3) Maintaining custody of an audited entity's securities.</p> <p>e. Executive or employee personnel matters – prohibited nonaudit services</p> <p>(1) Committing the audited entity to employee compensation or benefit arrangements.</p> <p>(2) Hiring or terminating audited entity employees.</p> <p>f. Business risk consulting – prohibited nonaudit services</p> <p>(1) Making or approving business risk decisions.</p> <p>(2) Presenting business risk considerations to those charged with governance or others on behalf of management.</p>		
			<p>²⁴See Section 2510.3-21 of Title 29, Code of Federal Regulations.</p>
<p>3.59</p>	<p>Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. GAGAS contains specific</p>	<p>3.108</p>	<p>Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.</p>

	<p>requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor’s compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements.³⁵ The independence standard includes the following documentation requirements:</p> <ul style="list-style-type: none"> a. document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence as required by paragraph 3.24; b. document the safeguards required by paragraph 3.30 if an audit organization is structurally located within a government entity and is considered independent based on those safeguards; c. document consideration of audited entity management’s ability to effectively oversee a nonaudit service to be provided by the auditor as indicated in paragraph 3.34; and d. document the auditor’s understanding with an audited entity for which the auditor will perform a nonaudit service as indicated in paragraph 3.39. 	<p>3.107</p>	<p>While insufficient documentation of an auditor’s compliance with the independence standard does not impair independence, auditors should prepare appropriate documentation under the GAGAS quality control and assurance requirements.²⁵ The independence standard includes the following documentation requirements, where applicable:</p> <ul style="list-style-type: none"> a. document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence as required by paragraph 3.33; b. document the safeguards in paragraphs 3.52 through 3.56 if an audit organization is structurally located within a government entity and is considered structurally independent based on those safeguards; c. document consideration of audited entity management’s ability to effectively oversee a nonaudit service to be provided by the auditor as indicated in paragraph 3.74; d. document the auditor’s understanding with an audited entity for which the auditor will provide a nonaudit service as indicated in paragraph 3.77; and e. document the evaluation of the significance of the threats created by providing any of the services discussed in paragraph 3.89.
	<p>³⁵See paragraph 3.84 for additional discussion of documenting compliance with quality control policies and procedures and paragraph 3.88 for additional discussion of policies and procedures on independence, legal, and ethical requirements.</p>		<p>²⁵See para. 5.04 for additional discussion of documenting compliance with quality control policies and procedures and paras. 5.08 through 5.11 for additional discussion of policies and procedures on independence, legal, and ethical requirements.</p>

<p>3.60</p>	<p>Auditors must use professional judgment in planning and performing audits and in reporting the results.</p>	<p>3.109</p>	<p>Auditors must use professional judgment in planning and conducting the engagement and in reporting the results.</p>
<p>3.61</p>	<p>Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty.</p>	<p>3.110</p>	<p>Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Attributes of professional skepticism include a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Professional skepticism includes being alert to, for example, evidence that contradicts other evidence obtained, or information that brings into question the reliability of documents or responses to inquiries to be used as evidence. Further, it includes a mindset in which auditors assume that management is neither dishonest nor of unquestioned honesty. Auditors may accept records and documents as genuine unless they have reason to believe the contrary. Auditors may consider documenting procedures undertaken to support their application of professional skepticism in highly judgmental or subjective areas under audit.</p>
<p>3.62</p>	<p>Using the auditors' professional knowledge, skills, and experience to diligently perform, in good faith and with integrity, the gathering of information and the objective evaluation of the sufficiency and appropriateness of evidence is a critical component of audits. Professional judgment and competence are</p>	<p>3.111</p>	<p>Using the auditor's professional knowledge, skills, and abilities, in good faith and with integrity, to diligently gather information and objectively evaluate the sufficiency and appropriateness of evidence is a critical component of GAGAS engagements. Professional judgment and competence are</p>

	interrelated because judgments made are dependent upon the auditors' competence.		interrelated because judgments made depend upon the auditor's competence, as discussed in chapter 4.
3.63	Professional judgment represents the application of the collective knowledge, skills, and experiences of all the personnel involved with an audit , as well as the professional judgment of individual auditors. In addition to personnel directly involved in the audit , professional judgment may involve collaboration with other stakeholders, external specialists, and management in the audit organization.	3.112	Professional judgment represents the application of the collective knowledge, skills, and abilities of all the personnel involved with an engagement, as well as the professional judgment of individual auditors. In addition, professional judgment may involve consultation with other stakeholders, specialists, and management in the audit organization.
3.64	Using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including following the independence standards and related conceptual framework; maintaining objectivity and credibility; assigning competent staff to the audit ; defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the audit process.	3.113	Using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including following the independence standards and related conceptual framework; maintaining objectivity and credibility; assigning competent staff to the engagement ; defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the engagement process.
3.65	Using professional judgment is important to auditors in applying the conceptual framework to determine independence in a given situation. This includes the consideration of any threats to the auditor's independence and related safeguards which may mitigate the identified threats. Auditors use professional judgment in identifying and evaluating any threats to independence,	3.114	Using professional judgment is important to auditors in applying the conceptual framework to determine independence in a given situation. This includes identifying and evaluating any threats to independence, including threats to the appearance of independence, and related safeguards that may mitigate the identified threats. ²⁶

	including threats to the appearance of independence. ³⁶		
	³⁶ See paragraph 3.03 for a description of independence in appearance.		²⁶ See para. 3.21b for a description of independence in appearance.
3.66	Using professional judgment is important to auditors in determining the required level of understanding of the audit subject matter and related circumstances. This includes consideration about whether the audit team’s collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter of the audit may contain a significant inaccuracy or could be misinterpreted.	3.115	Using professional judgment is important to auditors in determining the necessary level of understanding of the engagement subject matter and related circumstances. This includes considering whether the audit team’s collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter of the engagement may contain a significant inaccuracy or could be misinterpreted. ²⁷
			²⁷ See paras. 4.02 through 4.15 for a discussion of competence.
3.67	An auditor’s consideration of the risk level of each audit , including the risk of arriving at improper conclusions, is also important. Within the context of audit risk, exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the audit objectives and any recommendations reported is an integral part of the audit process.	3.116	An auditor’s consideration of the risk level of each engagement , including the risk of arriving at improper conclusions, is also important. Within the context of audit risk, exercising professional judgment in determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the engagement objectives and any recommendations reported is integral to the engagement process.
3.68	While this standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an audit , it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable due to factors	3.117	While this requirement places responsibility on each auditor and audit organization to exercise professional judgment in planning and conducting an engagement , it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable because of factors

	such as the nature of evidence and characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit , but rather identifying, assessing, mitigating, and explaining them.		such as the nature of evidence and characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific engagement , but rather identifying, assessing, mitigating, and concluding on them.
	Appendix II GAGAS Conceptual Framework for Independence		Figure 1: Generally Accepted Government Auditing Standards Conceptual Framework for Independence
N/A	NEW		Figure 2: Independence Considerations for Preparing Accounting Records and Financial Statements
N/A	NEW	4.01	This chapter establishes the generally accepted government auditing standards (GAGAS) requirements for competence and continuing professional education (CPE). Competence includes being knowledgeable about the specific GAGAS requirements and having the skills and abilities to proficiently apply that knowledge on GAGAS engagements. CPE contributes to auditors' competence. The requirements of this chapter are intended to be followed in conjunction with all other applicable GAGAS requirements.
3.69	The staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with GAGAS.	4.02	The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.
N/A	NEW	4.03	The audit organization's management must assign auditors who before beginning work on

			the engagement possess the competence needed for their assigned roles.
3.70	The audit organization's management should assess skill needs to consider whether its workforce has the essential skills that match those necessary to perform the particular audit. Accordingly, audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. The nature, extent, and formality of the process will depend on various factors such as the size of the audit organization, its structure, and its work.	4.04	Audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. The nature, extent, and formality of the process will depend on various factors, such as the size of the audit organization, its structure, and its work.
3.71	Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments.	4.05	Competence is the knowledge, skills, and abilities, obtained from education and experience, necessary to conduct the GAGAS engagement. Competence enables auditors to make sound professional judgments. Competence includes possessing the technical knowledge and skills necessary for the assigned role and the type of work being done. This includes possessing specific knowledge about GAGAS.
		4.06	Competence is derived from a combination of education and experience. Education is a structured and systematic process aimed at developing knowledge, skills, and other abilities; it is a process that is typically but not exclusively conducted in academic environments. Experience refers to workplace activities that are relevant to developing professional proficiency.

			<p>Competence is not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by auditors in any given time period. Maintaining competence through a commitment to learning and development throughout auditors' professional lives is an important element for auditors.</p>
<p>3.72</p>	<p>The staff assigned to conduct an audit in accordance with GAGAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that audit. The staff assigned to a GAGAS audit should collectively possess</p> <ul style="list-style-type: none"> a. knowledge of GAGAS applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed; b. general knowledge of the environment in which the audited entity operates and the subject matter; c. skills to communicate clearly and effectively, both orally and in writing; and d. skills appropriate for the work being performed; for example, skills in <ul style="list-style-type: none"> (1) statistical or nonstatistical sampling if the work involves use of sampling; (2) information technology if the work involves review of information systems; 	<p>4.07</p>	<p>The knowledge, skills, and abilities needed when conducting an engagement in accordance with GAGAS include the understanding necessary to proficiently apply</p> <ul style="list-style-type: none"> a. GAGAS; b. standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the engagement(s) being conducted; and c. techniques, tools, and guidance related to professional expertise applicable to the work being performed. <p>Auditor proficiency in these areas helps ensure that engagements are conducted in accordance with GAGAS.</p>

	<p>(3) engineering if the work involves review of complex engineering data;</p> <p>(4) specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial-based estimates, or statistical analysis tests, as applicable; or</p> <p>(5) specialized knowledge in subject matters, such as scientific, medical, environmental, educational, or any other specialized subject matter, if the work calls for such expertise.</p>		
N/A	NEW	4.08	<p>Achieving the knowledge, skills, and abilities needed to conduct a GAGAS engagement may include</p> <ul style="list-style-type: none"> a. having prior experience in the subject matter or type of engagement; b. completing CPE related to the subject matter or type of engagement; and c. obtaining degrees or certifications relevant to the subject matter or type of engagement.
N/A	NEW	4.09	<p>The audit organization and engagement teams may consider the levels of proficiency needed for each role on the engagement when assigning auditors to the engagement.</p>
N/A	NEW	4.10	<p>Roles on the engagement generally include the following:</p> <ul style="list-style-type: none"> a. Nonsupervisory auditors: Auditors in these roles plan or perform engagement procedures. Work situations for these auditors are characterized by low levels of ambiguity, complexity, and uncertainty. The nonsupervisory

			<p>auditor role necessitates at least a basic level of proficiency.</p> <p>b. Supervisory auditors: Auditors in these roles plan engagements, perform engagement procedures, or direct engagements. Work situations for these auditors are characterized by moderate levels of ambiguity, complexity, and uncertainty. The supervisory auditor role necessitates at least an intermediate level of proficiency.</p> <p>c. Partners and directors: Auditors in these roles plan engagements, perform engagement procedures, or direct or report on engagements. Partners and directors may also be responsible for reviewing engagement quality prior to issuing the report, for signing the report, or both. Work situations for these auditors are characterized by high levels of ambiguity, complexity, and uncertainty. The partner and director role necessitates an advanced level of proficiency.</p>
<p>N/A</p>	<p>NEW</p>	<p>4.11</p>	<p>Definitions of key terms follow:</p> <p>a. Planning: Determining engagement objectives, scope, and methodology; establishing criteria to evaluate matters subject to audit; or coordinating the work of other audit organizations. This definition excludes auditors whose role is limited to gathering information used in planning the engagement.</p> <p>b. Directing: Supervising the efforts of others who are involved in accomplishing the objectives of the engagement or reviewing engagement work to determine whether those objectives have been accomplished.</p>

			<p>c. Performing engagement procedures: Performing tests and procedures necessary to accomplish the engagement objectives in accordance with GAGAS.</p> <p>d. Reporting: Determining the report content and substance or reviewing reports to determine whether the engagement objectives have been accomplished and the evidence supports the report's technical content and substance prior to issuance. This includes signing the report.</p>
3.73	<p>Auditors performing financial audits should be knowledgeable in U.S. generally accepted accounting principles (GAAP), or with the applicable financial reporting framework being used, and the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards (SAS)³⁷ and they should be competent in applying these SASs to the audit work</p>		
3.74	<p>Similarly, auditors performing attestation engagements should be knowledgeable in the AICPA general attestation standard related to criteria, the AICPA attestation standards for field work and reporting, and the related Statements on Standards for Attestation Engagements (SSAE),³⁸ and they should be competent in applying these standards and SSAE to the attestation work.³⁹</p>		
	<p>³⁹See paragraphs 2.19 through 2.22 for additional information on the relationship between GAGAS and other professional</p>		

	<p>standards for financial audits and attestation engagements.</p>		
<p>3.75</p>	<p>Auditors engaged to perform financial audits or attestation engagements should be licensed certified public accountants, persons working for a licensed certified public accounting firm or for a government auditing organization, or licensed accountants in states that have multi-class licensing systems that recognize licensed accountants other than certified public accountants.</p>	<p>6.04</p> <p>7.07</p> <p>7.71</p> <p>7.79</p>	<p>Auditors engaged to conduct financial audits in the United States who do not work for a government audit organization should be licensed CPAs, persons working for licensed certified public accounting firms, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.</p> <p>Auditors engaged to conduct examination engagements in the United States who do not work for a government audit organization should be licensed CPAs, persons working for licensed certified public accounting firms, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.</p> <p>Auditors engaged to conduct review engagements in the United States who do not work for a government audit organization should be licensed CPAs, persons working for licensed certified public accounting firms, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.</p> <p>Auditors engaged to conduct agreed-upon procedures engagements in the United States who do not work for a government audit organization should be licensed CPAs, persons</p>

			working for a licensed certified public accounting firm, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.
		6.05	Auditors engaged to conduct financial audits of entities operating outside of the United States who do not work for a government audit organization should meet the qualifications indicated in paragraph 6.04, have certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States.
N/A	NEW	7.08	Auditors engaged to conduct examination engagements of entities operating outside of the United States who do not work for a government audit organization should meet the qualifications indicated in paragraph 7.07, have certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States.
N/A	NEW	7.72	Auditors engaged to conduct review engagements of entities operating outside of the United States who do not work for a government audit organization should meet the qualifications

			indicated in paragraph 7.71, have certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States.
N/A	NEW	7.73	Auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include consideration of noncompliance with provisions of contracts and grant agreements. ⁵⁶
			⁵⁶ See paras. .23 and .24 of AT-C section 210 (AICPA, Professional Standards).
N/A	NEW	7.80	Auditors engaged to conduct agreed-upon procedures engagements of entities operating outside of the United States who do not work for a government audit organization should meet the qualifications indicated in paragraph 7.79, have certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States.
N/A	NEW	7.81	Auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include consideration of noncompliance with provisions of contracts and grant agreements. ⁵⁹
			⁵⁹ See para. .42 of AT-C section 215 (AICPA, Professional Standards).

<p>3.76</p>	<p>Auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year periods. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours.</p>	<p>4.16</p>	<p>Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should develop and maintain their professional competence by completing at least 80 hours of CPE in every 2-year period as follows.</p> <table border="1" data-bbox="1314 412 1997 1037"> <thead> <tr> <th data-bbox="1314 412 1646 521">CPE hours</th> <th data-bbox="1650 412 1997 521">Subject matter categories of CPE</th> </tr> </thead> <tbody> <tr> <td data-bbox="1314 524 1646 854">24 hours</td> <td data-bbox="1650 524 1997 854">Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates</td> </tr> <tr> <td data-bbox="1314 857 1646 1037">56 hours</td> <td data-bbox="1650 857 1997 1037">Subject matter that directly enhance auditors' professional expertise to conduct engagements</td> </tr> </tbody> </table> <p>4.17</p> <p>Auditors should complete at least 20 hours of CPE in each year of the 2-year periods.</p>	CPE hours	Subject matter categories of CPE	24 hours	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates	56 hours	Subject matter that directly enhance auditors' professional expertise to conduct engagements
CPE hours	Subject matter categories of CPE								
24 hours	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates								
56 hours	Subject matter that directly enhance auditors' professional expertise to conduct engagements								
<p>N/A</p>	<p>NEW</p>	<p>4.18</p>	<p>The audit organization should maintain documentation of each auditor's CPE.²⁸</p>						
			<p>²⁸See paras. 4.51 and 5.16 for a discussion of CPE documentation.</p>						

<p>N/A</p>	<p>NEW</p>	<p>4.19</p>	<p>The continuing competence of the audit organization's personnel depends, in part, on an appropriate level of CPE so that auditors maintain the knowledge, skills, and abilities necessary to conduct the GAGAS engagement. Obtaining CPE specifically on GAGAS, particularly during years in which there are revisions to the standards, may assist auditors in maintaining the competence necessary to conduct GAGAS engagements</p>
<p>N/A</p>	<p>NEW Based on footnote 7 to Paragraph 18 of 2005 GAO Guidance for CPE</p>	<p>4.20</p>	<p>CPE used to fulfill the 24-hour requirement may be taken at any time during the 2-year measurement period.</p>
<p>3.77</p>	<p>CPE programs are structured educational activities with learning objectives designed to maintain or enhance participants' knowledge, skills, and abilities in areas applicable to performing audits. Determining what subjects are appropriate for individual auditors to satisfy both the 80-hour and the 24-hour requirements is a matter of professional judgment to be exercised by auditors in consultation with appropriate officials in their audit organizations. Among the considerations in exercising that judgment are the auditors' experience, the responsibilities they assume in performing GAGAS audits, and the operating environment of the audited entity.</p>	<p>4.21</p> <p>4.32</p>	<p>Determining what subjects are appropriate for individual auditors to satisfy the CPE requirements is a matter of professional judgment to be exercised by auditors in consultation with appropriate officials in their audit organizations. When determining what specific subjects qualify for the CPE requirement, the auditors may consider the types of knowledge, skills, and abilities, and the level of proficiency necessary, in order to be competent for their assigned roles. Auditors may consider probable future engagements to which they may be assigned when selecting specific CPE subjects to satisfy the 24-hour and the 56-hour CPE requirements. The audit organization is ultimately responsible for determining whether a subject or topic qualifies as acceptable for its auditors.</p>

			CPE programs are structured educational activities or programs with learning objectives designed to maintain or enhance the auditors' competence to address engagement objectives and perform work in accordance with GAGAS.
N/A	NEW	4.22	The subject matter categories for the 24-hour requirement may be used to satisfy the 56-hour CPE requirement. If CPE in any of the subject matter and topics that would satisfy the 56-hour requirement, as discussed in paragraph 4.24, is tailored specifically to the government environment, such CPE may qualify toward satisfying the 24-hour requirement. Examples of CPE subjects that may qualify for each of the categories are listed below.
N/A	NEW Taken from 2005 GAO Guidance for CPE with major adjustments	4.23	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates may include, but is not limited to, the following: a. generally accepted government auditing standards (GAGAS) and related topics, such as internal control as addressed in GAGAS; b. the applicable American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards; ²⁹ c. the applicable AICPA Statements on Standards for Attestation Engagements and Statements on Standards for Accounting and Review Services; ³⁰ d. the applicable auditing standards issued by the Institute of Internal Auditors, the Public

		<p>Company Accounting and Oversight Board, the International Auditing and Assurance Standards Board, or other auditing standard-setting body;</p> <p>e. U.S. generally accepted accounting principles, or the applicable financial reporting framework being used, such as those issued by the Federal Accounting Standards Advisory Board, the Governmental Accounting Standards Board, or the Financial Accounting Standards Board;</p> <p>f. Standards for Internal Control in the Federal Government;³¹</p> <p>g. Internal Control—Integrated Framework,³² as applicable;</p> <p>h. requirements for recipients of federal contracts or grants, such as Single Audits under the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;³³</p> <p>i. requirements for federal, state, or local program audits;</p> <p>j. relevant or applicable audit standards or guides, including those for information technology auditing and forensic auditing;</p> <p>k. information technology auditing topics applicable to the government environment;</p> <p>l. fraud topics applicable to a government environment;</p> <p>m. statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the specific and unique environment in which the audited entity operates;</p>
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		<p>n. statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the subject matter of the engagement, such as scientific, medical, environmental, educational, or any other specialized subject matter;</p> <p>o. topics directly related to the government environment, such as the nature of government (structures, financing, and operations), economic or other conditions and pressures facing governments, common government financial management issues, appropriations, measurement or evaluation of government financial or program performance, and application of general audit methodologies or techniques to a government environment or program;</p> <p>p. specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial estimates, statistical analysis tests, or statistical or nonstatistical sampling;</p> <p>q. performance auditing topics, such as obtaining evidence, professional skepticism, and other applicable audit skills;³⁴</p> <p>r. government ethics and independence;</p> <p>s. partnerships between governments, businesses, and citizens;</p> <p>t. legislative policies and procedures;</p> <p>u. topics related to fraud, waste, abuse, or improper payments affecting government entities; and</p> <p>v. compliance with laws and regulations.</p>
		<p>²⁹See para. 6.01 for a discussion of the AICPA standards incorporated into GAGAS for financial audits.</p>

			<p>³⁰See para. 7.01 for a discussion of the AICPA standards incorporated into GAGAS for attestation engagements and reviews of financial statements.</p> <p>³¹GAO, Standards for Internal Control in the Federal Government, GAO-14-704G (Washington, D.C.: September 2014).</p> <p>³²Committee of Sponsoring Organizations of the Treadway Commission, Internal Control—Integrated Framework (New York: American Institute of Certified Public Accountants, 2013).</p> <p>³³See Part 200, Subpart F, of Title 2, Code of Federal Regulations.</p> <p>³⁴See chs. 8 and 9 for performance audit topics that may be included.</p>
<p>N/A</p>	<p>NEW Taken from 2005 GAO Guidance for CPE with major adjustments</p>	<p>4.24</p>	<p>Subject matter that directly enhances auditors' professional expertise to conduct engagements may include, but is not limited to, the following:</p> <ul style="list-style-type: none"> a. subject matter categories for the 24-hour requirement listed in paragraph 4.23; b. general ethics and independence; c. topics related to accounting, acquisitions management, asset management, budgeting, cash management, contracting, data analysis, program performance, or procurement; d. communicating clearly and effectively, both orally and in writing; e. managing time and resources; f. leadership; g. software applications used in conducting engagements; h. information technology; and i. economics, human capital management, social and political sciences, and other academic disciplines that may be applied in engagements, as applicable.

<p>N/A</p>	<p>NEW Taken from Paragraph 8a and footnote 4 of 2005 GAO Guidance for CPE with adjustments</p>	<p>4.25</p>	<p>Auditors may be exempted from the 56-hour CPE requirement by the audit organization, but not the 24-hour, if they</p> <ul style="list-style-type: none"> a. charge less than 20 percent of their time annually to engagements conducted in accordance with GAGAS and b. are only involved in performing engagement procedures, but not involved in planning, directing, or reporting on the engagement. <p>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. For auditors who change status such that they are charging more than 20 percent of their time annually to engagements under GAGAS, the audit organization may prorate the required CPE hours similar to when auditors are assigned to GAGAS engagements after the beginning of a 2-year CPE measurement period, as discussed in paragraph 4.42.</p>
<p>N/A</p>	<p>NEW</p>	<p>4.26</p>	<p>Nonsupervisory auditors who charge less than 40 hours of their time annually to engagements conducted in accordance with GAGAS may be exempted by the organization from all CPE requirements in paragraph 4.16.</p>
<p>N/A</p>	<p>NEW Taken from Paragraph 8e of 2005 GAO Guidance for CPE.</p>	<p>4.27</p>	<p>The audit organization may exempt from the CPE requirements college and university students employed on a temporary basis for a limited period of time (for example, an internship of limited duration) or enrolled in a formal program sponsored by the college or university</p>

			for a specific period of employment, such as a term or semester.
N/A	<p style="text-align: center;">NEW</p> <p>Taken from Paragraph 8c and d of 2005 GAO Guidance for CPE with adjustments.</p>	4.28	<p>Employees or contract employees performing support services within the audit organization, such as individuals who are assigned to positions in budgeting, human resources, training, and administrative functions, and who do not conduct engagement activities are not auditors subject to the GAGAS CPE requirements. Employees or contract employees who assist in the engagement by performing support services, such as performing background research, data entry, writing and editing assistance, proofreading, or report production and distribution are not auditors subject to the GAGAS CPE requirements.</p>
N/A	<p style="text-align: center;">NEW</p> <p>Taken from Paragraph 9 of 2005 GAO Guidance for CPE.</p>	4.29	<p>The audit organization, at its discretion, may grant exemptions from a portion of the CPE requirement in the event of extended absences or other extenuating circumstances if situations such as the following prevent auditors from fulfilling those requirements and conducting engagements:</p> <ol style="list-style-type: none"> a. ill health, b. maternity or paternity leave, c. extended family leave, d. sabbaticals, e. leave without pay absences, f. foreign residency, g. military service, or h. disasters.

			The audit organization may not grant exceptions for reasons such as workload, budget, or travel constraints.
3.78	Meeting CPE requirements is primarily the responsibility of individual auditors. The audit organization should have quality control procedures to help ensure that auditors meet the continuing education requirements, including documentation of the CPE completed. The Government Accountability Office (GAO) has developed guidance pertaining to CPE requirements to assist auditors and audit organizations in exercising professional judgment in complying with the CPE requirements. ⁴⁰	5.16	The audit organization should establish policies and procedures to provide reasonable assurance that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed and any exemptions granted.
	⁴⁰ Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education, GAO-05-568G (Washington, D.C.: April 2005), http://www.gao.gov/yellowbook .		
N/A	NEW	5.17	Effective recruitment processes and procedures help the audit organization select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the audit organization's work and possess the appropriate characteristics to enable them to perform competently. Examples of such characteristics include meeting minimum academic requirements established by the audit organization and leadership traits.
N/A	NEW	5.18	The audit organization may use a suitably qualified external person to conduct engagement work when internal resources, for example, particular areas of technical expertise, are unavailable.

N/A	NEW	5.19	<p>Effective performance evaluation, compensation, and advancement procedures give due recognition and reward to developing and maintaining competent personnel. Steps that an audit organization may take in developing and maintaining competent personnel include the following:</p> <ul style="list-style-type: none"> a. making personnel aware of the audit organization's expectations regarding performance and ethical principles; b. providing personnel with an evaluation of, and counseling on, performance, progress, and career development; and c. helping personnel understand that compensation and advancement to positions of greater responsibility depend on, among other things, performance quality, and that failure to comply with the audit organization's policies and procedures may result in disciplinary action.
N/A	NEW	5.20	<p>The size and circumstances of the audit organization are important considerations in determining the structure of the audit organization's performance evaluation process. A smaller audit organization, in particular, may employ less formal methods of evaluating the performance of its personnel.</p>
N/A	NEW	5.21	<p>Objectives of the audit organization's human resources policies and procedures include</p> <ul style="list-style-type: none"> a. promoting learning and training for all personnel to encourage their professional development and to help ensure that personnel are trained in current developments in the profession; and

			b. helping ensure that personnel and any parties contracted to carry out work for the audit organization have an appropriate understanding of the environment(s) in which the organization operates and a good understanding of the work they are required to carry out.
3.79	The audit team should determine that external specialists assisting in performing a GAGAS audit are qualified and competent in their areas of specialization; however, external specialists are not required to meet the GAGAS CPE requirements.	4.12	The engagement team should determine that specialists assisting the engagement team on a GAGAS engagement are qualified and competent in their areas of specialization.
3.80	The audit team should determine that internal specialists consulting on a GAGAS audit who are not involved in directing, performing audit procedures, or reporting on a GAGAS audit, are qualified and competent in their areas of specialization; however, these internal specialists are not required to meet the GAGAS CPE requirements.	4.30	External specialists are not auditors subject to the GAGAS CPE requirements. Also, internal specialists assisting on a GAGAS engagement who are not involved in planning, directing, performing engagement procedures, or reporting on a GAGAS engagement are not auditors subject to the GAGAS CPE requirements.
N/A	NEW	5.01	This chapter establishes the generally accepted government auditing standards (GAGAS) requirements and guidance for quality control and assurance, and for administering, planning, performing, and reporting on peer reviews of audit organizations that conduct engagements in accordance with GAGAS. The requirements of this chapter are intended to be followed in conjunction with those of all other applicable GAGAS requirements.
3.81	The audit team should determine that internal specialists, who are performing work in	4.31	Internal specialists who are performing work in accordance with GAGAS as part of the

	<p>accordance with GAGAS as part of the audit team, including directing, performing audit procedures, or reporting on a GAGAS audit, comply with GAGAS, including the CPE requirements.⁴¹ The GAGAS CPE requirements become effective for internal specialists when an audit organization first assigns an internal specialist to an audit. Because internal specialists apply specialized knowledge in government audits, training in their areas of specialization qualify under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.</p>		<p>engagement team—including planning, directing, performing engagement procedures, or reporting on a GAGAS engagement—are considered auditors and are subject to the GAGAS CPE requirements. The GAGAS CPE requirements become effective for internal specialists when an audit organization first assigns an internal specialist to an engagement. Because internal specialists apply specialized knowledge in government engagements, CPE in their areas of specialization qualifies under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.</p>
	<p>⁴¹See paragraphs 3.76 through 3.81 for discussion of the CPE requirements.</p>		
<p>N/A</p>	<p>NEW Taken from Paragraph 16 of 2005 GAO Guidance for CPE with adjustments</p>	<p>4.33</p>	<p>The following are examples of structured educational programs and activities:</p> <ul style="list-style-type: none"> a. internal training programs (e.g., courses, seminars, and workshops); b. education and development programs presented at conferences, conventions, meetings, and seminars and meetings or workshops of professional organizations; c. training programs presented by other audit organizations, educational organizations, foundations, and associations; d. web-based seminars and individual-study or eLearning programs; e. audio conferences; f. accredited university and college courses (credit and noncredit);

			<p>g. standard-setting organization, professional organization, or audit organization staff meetings when a structured educational program with learning objectives is presented (e.g., the portion of the meeting that is a structured educational program with learning objectives designed to maintain or enhance auditors' competence);</p> <p>h. correspondence courses, individual-study guides, and workbooks;</p> <p>i. serving as a speaker, panelist, instructor, or discussion leader at programs that qualify for CPE hours;</p> <p>j. developing courses or the course materials for programs that qualify for CPE hours; or</p> <p>k. publishing articles and books that contribute directly to the author's professional proficiency to conduct engagements.</p>
<p>N/A</p>	<p>NEW Taken from Paragraph 25 of 2005 GAO Guidance for CPE with adjustments</p>	<p>4.34</p>	<p>Individual auditors who are members of professional organizations or who are licensed professionals, such as certified public accountants, are cautioned that the GAGAS CPE requirements, while similar in many respects to those of professional organizations and of licensing bodies, may not be identical. Some subjects and topics may be acceptable to state licensing bodies or professional organizations, but may not qualify as CPE under GAGAS. Conversely, some CPE that qualifies for GAGAS may not qualify for state licensing bodies or professional organizations. Careful consideration of auditors' relevant professional organizations or licensing body requirements is</p>

			encouraged to meet other relevant CPE requirements.
N/A	<p>NEW</p> <p>Taken from Paragraph 26 of 2005 GAO Guidance for CPE with adjustments</p>	4.35	<p>Examples of training topics that may qualify as CPE for state licensing bodies or professional organizations but would not generally qualify as CPE for purposes of satisfying requirements under GAGAS include certain training in taxation, personal financial planning and investment, taxation strategies, estate planning, retirement planning, and practice management, unless such training directly enhances the auditors' professional proficiency to perform engagements or relate to the subject matter of an engagement. However, if certain taxation or other topics relate to an objective or the subject matter of an engagement, training in those related topics could qualify as CPE under GAGAS.</p>
N/A	<p>NEW</p> <p>Taken from Paragraph 24 and footnote 8 of the 2005 GAO Guidance on CPE with adjustments</p>	4.36	<p>Examples of programs and activities that do not qualify for CPE hours under GAGAS include, but are not limited to, the following:</p> <ul style="list-style-type: none"> a. on-the-job training; b. basic or elementary courses in subjects or topics in which auditors already have the knowledge and skills being taught; c. programs that are designed for general personal development, such as résumé writing, improving parent-child relations, personal investments and money management, and retirement planning; d. programs that demonstrate office equipment or software that is not used in conducting engagements;

			<p>e. programs that provide training on the audit organization’s administrative operations;</p> <p>f. business sessions at professional organization conferences, conventions, and meetings that do not have a structured educational program with learning objectives;</p> <p>g. conducting external quality control reviews; and</p> <p>h. sitting for professional certification examinations.</p> <p>Basic or elementary courses would be acceptable in cases where they are deemed necessary as “refresher” courses to enhance the auditors’ proficiency to conduct audits and attestation engagements.</p>
N/A	<p>NEW</p> <p>Taken from Paragraph 27 of 2005 GAO Guidance for CPE with major adjustments (shorten)</p>	4.37	<p>A CPE hour may be granted for each 50 minutes of participation in group programs and activities that qualify.</p>
N/A	<p>NEW</p> <p>Taken from Paragraph 29 of 2005 GAO Guidance for CPE</p>	4.38	<p>For university or college credit courses, each unit of college credit under a semester system equals 15 CPE hours, and each unit of college credit under a quarter system equals 10 CPE hours. For university or college noncredit courses, CPE hours may be granted only for the actual classroom time.</p>
N/A	<p>NEW</p> <p>Taken from Paragraph 30 of 2005 GAO Guidance for CPE with adjustments</p>	4.39	<p>For individual-study programs where successful completion is measured by a summary examination, CPE credit may be granted if auditors complete the examination with a passing grade. Auditors in other individual-study programs may earn CPE hours when they</p>

			satisfactorily complete the requirements of the self-study program. The number of hours granted may be based on the CPE provider's recommended number of CPE hours for the program.
N/A	NEW Taken from Paragraph 31 of 2005 GAO Guidance for CPE with adjustments	4.40	Speakers, instructors, and discussion leaders at programs that qualify for CPE and auditors who develop or write the course material may receive CPE hours for preparation and presentation time to the extent the subject matter contributes to auditors' competence . One CPE hour may be granted for each 50 minutes of presentation time. Up to 2 CPE hours may be granted for the developing, writing, or advance preparation for each 50 minutes of the presentation. Auditors may not receive CPE hours for either preparation or presentation time for repeated presentations that they make within the 2-year period, unless the subject matter involved was changed significantly for each presentation. The maximum number of CPE hours that may be granted to an auditor as a speaker, instructor, discussion leader, or preparer of course materials may not exceed 40 hours for any 2-year period.
N/A	NEW Taken from Paragraph 32 of 2005 GAO Guidance for CPE with adjustments	4.41	Articles, books, or materials written by auditors and published on subjects and topics that contribute directly to professional proficiency to conduct engagements qualify for CPE hours in the year they are published. One CPE hour may be granted for each hour devoted to writing articles, books, or materials that are published.

			However, CPE hours for published writings may not exceed 20 hours for any 2-year period.
N/A	NEW Taken from Paragraph 12 and footnote 6 of 2005 GAO Guidance for CPE with some adjustments	4.42	<p>Auditors hired or assigned to a GAGAS engagement after the beginning of an audit organization's 2-year CPE period may complete a prorated number of CPE hours. An audit organization may define a prorated number of hours based on the number of full 6-month intervals remaining in the CPE period. For example, an audit organization has a 2-year CPE period running from January 1, 2020, through December 31, 2021. The audit organization assigns a new staff member to a GAGAS engagement in May 2020. The audit organization may calculate the prorated CPE requirement for the auditor as follows:</p> <ul style="list-style-type: none"> a. Number of full 6-month intervals remaining in the CPE period: 3 b. Number of 6-month intervals in the full 2-year period: 4 c. Newly assigned auditor's CPE requirement: $3/4 \times 80 \text{ hours} = 60 \text{ hours}$ <p>When auditors are newly hired or newly assigned to GAGAS engagements and have had some previous CPE, the audit organization has flexibility and may choose between using a pro rata approach or evaluating whether and to what extent any CPE already taken in that period would satisfy GAGAS CPE requirements.</p>
N/A	NEW Taken from Paragraph 12 of 2005 GAO Guidance for CPE with some adjustments	4.43	For newly assigned auditors who are subject to the 24-hour requirement, the number of prorated hours may be calculated in a similar manner: $3/4$

			x 24 hours = 18 hours, in this example . The prorated amount of hours would be the total requirement over the partial period. The 20-hour minimum for each CPE year would not apply when the prorated number of hours is being used to cover a partial 2-year CPE period.
N/A	NEW Taken from Paragraph 14 of 2005 GAO Guidance for CPE. New language highlighted.	4.44	At their discretion, audit organizations may give auditors who have not completed the 80-hour CPE requirement for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency. Audit organizations may also give auditors who have not completed the 20 hours of CPE in a 1-year period up to 2 months immediately following the 1-year period to make up the deficiency. Any CPE hours completed toward a deficiency in one period may be documented in the CPE records and may not be counted toward the requirements for the next period. Audit organizations that grant the 2-month grace period may not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements until those requirements are satisfied.
N/A	NEW Taken from Paragraph 3 of the 2005 GAO Guidance on CPE	4.45	Auditors may not carry over CPE hours earned in excess of the 80-hour and 24-hour requirements from one 2-year CPE measurement period to the next.
N/A	NEW Taken from Paragraph 10 of the 2005 GAO Guidance on CPE	4.46	If an audit organization discontinues conducting GAGAS engagements or reassigns auditors to non-GAGAS assignments before auditors complete the CPE requirements, the auditors are not required to complete the number of

			hours to satisfy the CPE requirements. However, the audit organization may wish to have its auditors complete those requirements if it is foreseeable that the auditors will conduct GAGAS engagements in the future.
N/A	<p>NEW</p> <p>Taken from paragraph 20 of the 2005 GAO Guidance on CPE with adjustments</p>	4.47	<p>Auditors who complete a professional certification review course may receive CPE hours only for those segments of the review course that are relevant to the standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or to the engagement objectives being performed, or for subject matter that directly enhance auditors' professional expertise to conduct engagements.</p>
N/A	<p>NEW</p> <p>Taken from paragraph 11 and footnote 5 of the 2005 GAO Guidance on CPE with adjustments</p>	4.48	<p>To simplify administration of the CPE requirements, an audit organization may establish a standard 2-year period for all of its auditors, which can be on either a fixed-year or rolling-year basis. A fixed-year measurement period, for example, would be the 2-year periods 2019 through 2020, 2021 through 2022, and so forth, while a rolling-year measurement period would be 2019 through 2020, 2020 through 2021, 2021 through 2022, and so forth.</p>
N/A	<p>NEW</p> <p>Taken from paragraph 13 of the 2005 GAO Guidance on CPE with some adjustments</p>	4.49	<p>An audit organization may use a measurement date other than the date it started its first GAGAS 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. For example, if an audit organization changes the end date of the measurement period from</p>

			December 31 to June 30, during the audit organization's transition period (January 1 to June 30), its auditors may complete at least a prorated number of CPE hours for the 6-month transition period. The number of prorated hours required may be calculated using the method illustrated in paragraphs 4.42 and 4.43.
N/A	<p>NEW</p> <p>Taken from paragraph 34 of the 2005 GAO Guidance on CPE but now may vs. should</p>	4.50	<p>The audit organization's policies and procedures for CPE may address the following:</p> <ul style="list-style-type: none"> a. identifying all auditors required to meet the CPE requirements; b. providing auditors with the opportunity to attend internal CPE programs, external CPE programs, or both; c. assisting auditors in determining which programs, activities, and subjects qualify for CPE; d. documenting the number of CPE hours completed by each auditor; and e. monitoring auditor compliance with the CPE requirements to ensure that auditors complete sufficient CPE in qualifying programs and subjects.
N/A	<p>NEW</p> <p>Taken from paragraphs 35 and 36 of the 2005 GAO Guidance on CPE with some adjustments</p>	4.51	<p>Policies and procedures for documentation may address maintaining documentation of the CPE hours completed by each auditor subject to the CPE requirements for an appropriate period of time to satisfy any legal and administrative requirements, including peer review. The audit organization may maintain documentation of CPE or may delegate the responsibility to the auditor and put in place adequate procedures to ensure that its records of CPE hours earned by</p>

			<p>auditors are supported by the documentation maintained by auditors. Documentation may include the following information:</p> <ul style="list-style-type: none"> a. the name of the organization providing the CPE; b. the title of the training program, including the subject matter or field of study; c. the dates attended for group programs or dates completed for individual study programs; d. the number of CPE hours earned toward the 56-hour and 24-hour requirements; e. any reasons for specific exceptions granted to the CPE requirement; and f. evidence of completion of CPE, such as a certificate or other evidence of completion from the CPE provider for group and individual-study programs, if provided; documentation of CPE courses presented or copies of course materials developed by or for speakers, instructors, or discussion leaders, along with a written statement supporting the number of CPE hours claimed; or a copy of the published book, article, or other material that name the writer as author or contributor, or a written statement from the writer supporting the number of CPE hours claimed.
N/A	<p>NEW</p> <p>Taken from paragraph 39 of the 2005 GAO Guidance on CPE but now may vs. should</p>	4.52	<p>The audit organization may monitor CPE compliance through its internal inspections, or other quality assurance monitoring activities.</p>
N/A	<p>NEW</p> <p>Taken from paragraph 38 of the 2005 GAO Guidance on CPE with adjustment</p>	4.53	<p>The audit organization is not required to prepare reports on CPE. However, the audit organization may consider preparing a periodic CPE report for distribution to the auditors or maintaining or</p>

			accessing training data online to monitor its auditors' progress toward meeting the CPE requirements.
3.82	<p>Each audit organization performing audits in accordance with GAGAS must:</p> <p>a. establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements,⁴² and</p> <p>b. have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.</p>	5.02	An audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with applicable professional standards and legal and regulatory requirements.
3.97	<p>The first peer review for an audit organization not already subject to a peer review requirement covers a review period ending no later than 3 years from the date an audit organization begins its first audit in accordance with GAGAS. The period under review generally covers 1 year, although peer review programs may choose a longer review period. Generally, the deadlines for peer review reports are established by the entity that administers the peer review program. Extensions of the deadlines for submitting the peer review report exceeding 3 months beyond the due date are granted by the entity that administers the peer review program and GAO.</p>	5.84	An audit organization not already subject to a peer review requirement should obtain an external peer review at least once every 3 years. The audit organization should obtain its first peer review covering a review period ending no later than 3 years from the date an audit organization begins its first engagement in accordance with GAGAS.
		5.85	The period under review in a peer review generally covers 1 year.
		5.64	In cases of unusual difficulty or hardship, extensions of the deadlines for submitting peer review reports exceeding 3 months beyond the due date may be granted by the entity that administers the peer review program with the concurrence of GAO.

			those policies and procedures, are matters of professional judgment and will vary based on the organization’s circumstances.
3.85	An audit organization should establish policies and procedures in its system of quality control that collectively address a. leadership responsibilities for quality within the audit organization, b. independence, legal, and ethical requirements, c. initiation, acceptance, and continuance of audits, d. human resources, e. audit performance, documentation, and reporting, and f. monitoring of quality.		
3.86	Audit organizations should establish policies and procedures on leadership responsibilities for quality within the audit organization that include the designation of responsibility for quality of audits performed in accordance with GAGAS and communication of policies and procedures relating to quality. Appropriate policies and communications encourage a culture that recognizes that quality is essential in performing GAGAS audits and that leadership of the audit organization is ultimately responsible for the system of quality control.	5.05 5.07	5.05 The audit organization should establish policies and procedures on leadership responsibilities for quality within the audit organization that include designating responsibility for quality of engagements conducted in accordance with GAGAS and communicating policies and procedures relating to quality. Appropriate policies and communications encourage a culture that recognizes that quality is essential in conducting GAGAS engagements and that audit organization leadership is

			ultimately responsible for the system of quality control.
3.87	The audit organization should establish policies and procedures designed to provide it with reasonable assurance that those assigned operational responsibility for the audit organization’s system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.	5.06	The audit organization should establish policies and procedures designed to provide reasonable assurance that those assigned operational responsibility for the audit organization’s system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.
3.88	Audit organizations should establish policies and procedures on independence, legal, and ethical requirements that are designed to provide reasonable assurance that the audit organization and its personnel maintain independence and comply with applicable legal and ethical requirements. ⁴³ Such policies and procedures assist the audit organization to a. communicate its independence requirements to its staff , and b. identify and evaluate circumstances and relationships that create threats to independence, and take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, withdraw from the audit where withdrawal is not prohibited by law or regulation.	5.08 5.10	5.08 The audit organization should establish policies and procedures on independence and legal and ethical requirements that are designed to provide reasonable assurance that the organization and its personnel maintain independence and comply with applicable legal and ethical requirements. ³⁵ Policies and procedures pertaining to independence and legal and ethical requirements assist the audit organization in a. communicating its independence requirements to its personnel and b. identifying and evaluating circumstances and relationships that create threats to independence and taking appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, withdrawing from the engagement where withdrawal is not prohibited by law or regulation.
	⁴³ See paragraphs 3.02 through 3.59 for GAGAS independence requirements. See chapter 1 for GAGAS ethical principles.		³⁵ See paras. 3.02 through 3.16 for a discussion of ethical principles and paras. 3.18 through 3.108 for independence requirements and guidance.

N/A	NEW	5.09	At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all its personnel required to be independent.
N/A	NEW	5.11	Written affirmation of compliance with its policies and procedures on independence from all audit organization personnel required to be independent may be in paper or electronic form. By obtaining affirmation of retrospective compliance with the audit organization's policies and procedures on independence during a specified period and taking appropriate action on information indicating noncompliance, or potential noncompliance, the organization demonstrates the importance that it attaches to independence and keeps the issue current for, and visible to, its personnel. An audit organization may obtain affirmation of required personnel's compliance with policies and procedures on independence more frequently than once per year. For example, affirmation may be obtained on a per-engagement basis when such engagements last less than 1 year.
3.89	Audit organizations should establish policies and procedures for the initiation, acceptance, and continuance of audits that are designed to provide reasonable assurance that the audit organization will undertake audits only if it can comply with professional standards, legal requirements, and ethical principles and is acting within the legal mandate or authority of the audit organization. ⁴⁴	5.12	The audit organization should establish policies and procedures for the initiation, acceptance, and continuance of engagements that are designed to provide reasonable assurance that the organization will undertake engagements only if it a. complies with professional standards, applicable legal and regulatory requirements, and ethical principles; b. acts within its legal mandate or authority; and

			c. has the capabilities, including time and resources, to do so.
	⁴⁴ See paragraph A3.10a for discussion of initiation of audits by government audit organizations.		
3.90	Audit organizations should establish policies and procedures for human resources that are designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements. ⁴⁵	5.15	The audit organization should establish policies and procedures for human resources that are designed to provide the organization with reasonable assurance that it has personnel with the competence to conduct GAGAS engagements in accordance with professional standards and applicable legal and regulatory requirements. ³⁶
	⁴⁵ See paragraphs 3.69 through 3.81 for requirements related to professional competence.	OK	³⁶ Refer to paras. 4.02 through 4.15 for requirements and guidance on competence.
3.91	Audit organizations should establish policies and procedures for audit performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that audits are performed and reports are issued in accordance with professional standards and legal and regulatory requirements. ⁴⁶	5.22	The audit organization should establish policies and procedures for engagement performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that engagements are conducted and reports are issued in accordance with professional standards and applicable legal and regulatory requirements.
	⁴⁶ For financial audits, chapters 2 through 4 apply; for attestation engagements, chapters 2, 3 and 5 apply; for performance audits, chapters 2, 3, 6, and 7 apply.		
N/A	NEW	5.23	If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes.
N/A	NEW	5.24	The audit organization should establish policies and procedures designed to provide it with reasonable assurance that a. appropriate consultation takes place on difficult or contentious issues that arise among

			<p>engagement team members in the course of conducting a GAGAS engagement;</p> <p>b. both the individual seeking consultation and the individual consulted document and agree upon the nature and scope of such consultations; and</p> <p>c. the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented.</p>
N/A	NEW	5.28	<p>Documentation of policies and procedures, as well as compliance with those policies and procedures, may be either electronic or manual. For example, large audit organizations may use electronic databases to document matters such as independence confirmations, performance evaluations, and the results of monitoring. Smaller audit organizations may use more informal methods in the documentation of their systems of quality control, such as manual notes, checklists, and forms.</p>
N/A	NEW	5.29	<p>Consultation includes discussion at the appropriate professional level with individuals within or outside the audit organization who have relevant specialized expertise.</p>
N/A	NEW	5.30	<p>Consultation uses appropriate research resources, as well as the collective experience and technical expertise of the audit organization. Consultation helps promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the audit organization's policies and procedures helps promote a culture in</p>

			which consultation is recognized as a strength and personnel are encouraged to consult on difficult or contentious issues.
N/A	NEW	5.31	Effective consultation on significant technical, ethical, and other matters within the audit organization or, when applicable, outside the audit organization can be achieved when a. those consulted are given all the relevant facts that will enable them to provide informed advice; b. those consulted have appropriate knowledge, authority, and experience; and c. conclusions resulting from consultations are appropriately documented and implemented.
N/A	NEW	5.32	Documentation of consultations with other professionals that involve difficult or contentious matters contributes to an understanding of a. the issue on which consultation was sought and b. the results of the consultation, including any decisions made, the basis for those decisions, and how they were implemented.
N/A	NEW	5.33	An audit organization needing to obtain specialized or technical expertise from external providers may take advantage of services provided by a. other audit organizations, b. professional and regulatory bodies, and c. commercial organizations that provide relevant quality control services.
N/A	NEW	5.34	Before contracting for such services, consideration of the competence and capabilities of the external provider helps the

			audit organization determine whether the external provider is suitably qualified for that purpose.
N/A	NEW in this chapter	5.36	The audit organization should establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.
N/A	NEW	5.37	The audit organization should assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and should establish policies and procedures requiring the organization to a. communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and b. clearly define the responsibilities of the engagement partner or director and communicate them to that individual.
N/A	NEW	5.38	Appropriate teamwork and training help less experienced members of the engagement team to clearly understand the objectives of the assigned work.
N/A	NEW	5.39	Engagement supervision includes the following: a. tracking the progress of the engagement; b. considering the competence of individual members of the engagement team, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;

			<p>c. addressing significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately; and</p> <p>d. identifying matters for consultation or consideration by engagement team members with appropriate levels of skill and proficiency in auditing, specialists, or both during the engagement.</p>
N/A	NEW	5.40	<p>A review of the audit work performed consists of consideration of whether</p> <p>a. the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;</p> <p>b. significant findings and issues have been raised for further consideration;</p> <p>c. appropriate consultations have taken place and the resulting conclusions have been documented and implemented;</p> <p>d. the nature, timing, and extent of the work performed is appropriate and without need for revision;</p> <p>e. the work performed supports the conclusions reached and is appropriately documented;</p> <p>f. the evidence obtained is sufficient and appropriate to support the report; and</p> <p>g. the objectives of the engagement procedures have been achieved.</p>
N/A	NEW	5.41	<p>In the case of a sole proprietor, the requirement for a second auditor to review work performed and related documentation may be achieved through alternative procedures.</p>

<p>3.92</p>	<p>When performing GAGAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge, or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation.</p>	<p>5.58</p>	<p>Whether engagement documentation is in paper, electronic, or other form, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge or if the documentation is lost or damaged.</p>
<p>N/A</p>	<p>NEW</p>	<p>5.59</p>	<p>Appropriate documentation relating to monitoring may include, for example, the following:</p> <ul style="list-style-type: none"> a. monitoring procedures, including the procedure for selecting completed engagements to be inspected; b. a record of the evaluation of the following: <ul style="list-style-type: none"> (1) adherence to professional standards and applicable legal and regulatory requirements, (2) whether the system of quality control has been appropriately designed and is effectively implemented and operating, and (3) whether the audit organization's quality control policies and procedures have been appropriately applied so that the reports that are

			<p>issued by the audit organization are appropriate in the circumstances; and</p> <p>c. identification of the deficiencies noted, an evaluation of their effect, and the basis for determining whether and what further action is necessary.</p>
<p>3.93</p> <p>A3.10c</p>	<p>Audit organizations should establish policies and procedures for monitoring of quality in the audit organization.⁴⁷ Monitoring of quality is an ongoing, periodic assessment of work completed on audits designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of whether the:</p> <ul style="list-style-type: none"> a. professional standards and legal and regulatory requirements have been followed, b. quality control system has been appropriately designed, and c. quality control policies and procedures are operating effectively and complied with in practice. <p>Monitoring is an ongoing, periodic assessment of audits designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating</p>	<p>5.42</p> <p>5.47</p>	<p>The audit organization should establish policies and procedures for monitoring its system of quality control.</p> <p>Monitoring of quality is a process comprising an ongoing consideration and evaluation of the audit organization's system of quality control, including inspection of engagement documentation and reports for a selection of completed engagements. The purpose of monitoring is to provide management of the audit organization with reasonable assurance that (1) the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice and (2) auditors have followed professional standards and applicable legal and regulatory requirements.</p>

	<p>effectively in practice.¹⁸⁸ The following guidance is provided to assist audit organizations with implementing and continuing its monitoring of quality: (1) Who: Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored (e.g., for specific audits or specific centralized processes). The staff member or team of staff members assigned with responsibility for the monitoring process collectively need sufficient and appropriate competence and authority in the audit organization to assume that responsibility. Generally the staff member or the team of staff members performing the monitoring are apart from the normal audit supervision associated with individual audits.</p> <p>(2) How much: The extent of monitoring procedures varies based on the audit organization's circumstances to enable the audit organization to assess compliance with applicable professional standards and the audit organization's quality control policies and procedures. Examples of specific monitoring procedures include</p> <ul style="list-style-type: none"> (a) examination of selected administrative and personnel records pertaining to quality control; (b) review of selected audit documentation and reports; (c) discussions with the audit organization's personnel (as applicable and appropriate); 		
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			Monitoring procedures will vary based on the audit organization's facts and circumstances
3.95 A3.10c	<p>The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.</p> <p>(5) Communication: The audit organization communicates internally the results of the monitoring of its quality control systems that allows the audit organization to take prompt and appropriate action where necessary. Information included in this communication includes:</p> <ul style="list-style-type: none"> (a) a description of the monitoring procedures performed; (b) the conclusions drawn from the monitoring procedures; and (c) where relevant, a description of the systemic, repetitive, or other significant deficiencies and of the actions taken to resolve those deficiencies. 	5.44	<p>The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to the relevant engagement partner or director, and other appropriate personnel, any deficiencies noted during the monitoring process and recommend appropriate remedial action. This communication should be sufficient to enable the audit organization and appropriate personnel to take prompt corrective action related to deficiencies, when necessary, in accordance with their defined roles and responsibilities. Information communicated should include the following:</p> <ul style="list-style-type: none"> a. a description of the monitoring procedures performed; b. the conclusions reached from the monitoring procedures; and c. when relevant, a description of systemic, repetitive, or other deficiencies and of the actions taken to resolve those deficiencies.
N/A	NEW	5.45	The audit organization should evaluate the effects of deficiencies noted during monitoring of the audit organization's system of quality control to determine and implement appropriate actions

			to address the deficiencies. This evaluation should include assessments to determine if the deficiencies noted indicate that the audit organization's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that accordingly the reports that the audit organization issues are not appropriate in the circumstances.
N/A	NEW	5.46	The audit organization should establish policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation.
3.96	The audit organization should obtain an external peer review at least once every 3 years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming with applicable professional standards.	5.60	Each audit organization conducting engagements in accordance with GAGAS must obtain an external peer review conducted by reviewers independent of the audit organization being reviewed. The peer review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review, (1) the reviewed audit organization's system of quality control was suitably designed and (2) the organization is complying with its quality control system so that it has reasonable assurance that it is performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.

N/A	NEW	5.61	<p>Audit organizations affiliated with one of the following recognized organizations should comply with the respective organization's peer review requirements and the requirements listed throughout paragraphs 5.66 through 5.80.</p> <ul style="list-style-type: none"> a. American Institute of Certified Public Accountants b. Council of the Inspectors General on Integrity and Efficiency c. Association of Local Government Auditors d. International Organization of Supreme Audit Institutions e. National State Auditors Association
N/A	NEW	5.62	<p>Any audit organization not affiliated with an organization listed in paragraph 5.61 should meet the minimum GAGAS peer review requirements throughout paragraphs 5.66 through 5.94.</p>
N/A	NEW	5.63	<p>Each audit organization has discretion in selecting and accepting its peer review teams. Auditors in governments or jurisdictions without access to established peer review programs may engage other auditors, including public accounting firms, to conduct their peer reviews. If access to an established peer review program is not available, auditors may organize regional programs with other auditors.</p>
N/A	NEW	5.65	<p>Some audit organizations may be subject to or required to follow a peer review program of a recognized organization. Other audit organizations may follow a specific peer review program voluntarily. In instances where the audit organization follows a recognized organization's</p>

			<p>peer review program voluntarily, the use of such a peer review program means compliance with the recognized organization's entire peer review process, including, where applicable, standards for administering, performing, and reporting on peer reviews, oversight procedures, training, and related guidance materials.</p>
<p>3.98</p>	<p>The peer review team should include the following elements in the scope of the peer review:</p> <ul style="list-style-type: none"> a. review of the audit organization's quality control policies and procedures; b. consideration of the adequacy and results of the audit organization's internal monitoring procedures; c. review of selected auditors' reports and related documentation; d. review of other documents necessary for assessing compliance with standards, for example, independence documentation, CPE records, and relevant human resource management files; and e. interviews with a selection of the reviewed audit organization's professional staff at various levels to assess their understanding of and compliance with relevant quality control policies and procedures. 	<p>5.82</p>	<p>The peer review team should include the following elements in the scope of the peer review:</p> <ul style="list-style-type: none"> a. review of the audit organization's design of, and compliance with, quality control and related policies and procedures; b. consideration of the adequacy and results of the audit organization's internal monitoring procedures; c. review of selected audit reports and related documentation and, if applicable, documentation related to selected terminated engagements prepared in accordance with paragraph 5.25, if any terminated engagements are selected from the universe of engagements used for the peer review sample; d. review of prior peer review reports, if applicable; e. review of other documents necessary for assessing compliance with standards, for example, independence documentation, CPE records, and relevant human resource management files; and f. interviews with selected members of the audit organization's staff in various roles to assess

			their understanding of and compliance with relevant quality control policies and procedures
N/A	NEW	5.83	Review of documentation related to terminated engagements can provide information on the audit organization's response to threats to independence. For example, the documentation may include information on whether an engagement was terminated as a result of an undue influence from outside the audit organization.
N/A	NEW	5.86	The peer review team and the reviewed audit organization should incorporate their basic agreement on the peer review into a written agreement. The written agreement should be drafted by the peer review team, reviewed by the reviewed audit organization to ensure that it accurately describes the agreement between the parties, and signed by the authorized representatives of both the peer review team and the reviewed audit organization prior to the initiation of work under the agreement. The written agreement should state that the peer review will be conducted in accordance with GAGAS peer review requirements.
N/A	NEW	5.87	The written agreement is meant to ensure mutual consent on the fundamental aspects of the peer review and to avoid any potential misunderstandings. The written agreement may address the following: a. scope of the peer review; b. staffing and time frame; c. compensation for conducting the peer review, if applicable;

			<ul style="list-style-type: none"> d. preliminary findings, if applicable; e. reporting results; f. administrative matters; and g. access to audit documentation.
N/A	NEW	5.88	The peer review team is responsible for ensuring that the peer review is conducted in accordance with GAGAS peer review requirements.
3.99	<p>The peer review team should perform an assessment of peer review risk to help determine the number and types of audits to select for review.⁴⁸ Based on the risk assessment, the team should use one or a combination of the following approaches to select individual audits for review with greater emphasis on those audits with higher assessed levels of peer review risk: (1) select GAGAS audits that provide a reasonable cross-section of the GAGAS audits performed by the reviewed audit organization; or (2) select audits that provide a reasonable cross-section from all types of work subject to the reviewed audit organization's quality control system, including one or more audits performed in accordance with GAGAS. The second approach is generally applicable to audit organizations that perform only a small number of GAGAS audits in relation to other types of audits. In these cases, one or more GAGAS audits may represent more than what would be selected when looking at a</p>	<p>5.66</p> <p>5.67</p> <p>5.69</p>	<p>The peer review team should perform an assessment of peer review risk to help determine the number and types of engagements to select for review.</p> <p>Based on the risk assessment, the peer review team should select engagements that provide a reasonable cross section of all types of work subject to the reviewed audit organization's quality control system, including one or more engagements conducted in accordance with GAGAS.</p> <p>A selection approach that provides a cross section of all types of work is generally applicable to audit organizations that conduct a small number of GAGAS engagements in relation to other types of engagements. In these cases, one or more GAGAS engagements may represent more than what would be selected when looking at a cross section of the audit organization's work as a whole. Some audit organizations conduct audit and attestation work in a number of functional areas. For example, an</p>

	cross-section of the audit organization’s work as a whole.		organization may conduct financial audits, attestation engagements, reviews of financial statements, and performance audits. The peer review team may consider reviewing a sample of engagements from each of the major functional areas included within the scope of the review.
	⁴⁸ See paragraph A3.11 for examples of factors to consider in assessing peer review risk.		
N/A	NEW	5.68	Peer review risk is the risk that the review team a. fails to identify significant weaknesses in the reviewed audit organization’s system of quality control for its auditing practice, its lack of compliance with that system, or a combination thereof; b. issues an inappropriate opinion on the reviewed audit organization’s system of quality control for its auditing practice, its compliance with that system, or a combination thereof; or c. makes an inappropriate decision about the matters to be included in, or excluded from, the peer review report.
N/A	NEW	5.70	A peer review is designed to test significant risk areas where it is possible that engagements are not being conducted, reported on, or both in conformity with professional standards and applicable legal and regulatory requirements in all material respects. A peer review is not designed to test every engagement, compliance with every professional standard, or every detailed component of the audit organization’s system of quality control.
3.100	The peer review team should prepare one or more written reports communicating the	5.91	The peer review team should prepare one or more written reports communicating the results

<p>3.103</p>	<p>results of the peer review, including the following: a. a description of the scope of the peer review, including any limitations; b. an opinion on whether the system of quality control of the reviewed audit organization's audit practices was adequately designed and complied with during the period reviewed to provide the audit organization with reasonable assurance of conforming with applicable professional standards; c. specification of the professional standards to which the reviewed audit organization is being held; and d. reference to a separate written communication, if issued under the peer review program.</p> <p>For any deficiencies or significant deficiencies included in the peer review report or other written communication, the peer review team should include, either in the peer review report or in a separate written communication, a detailed description of the findings, conclusions, and recommendations related to the deficiencies or significant deficiencies.</p>		<p>of the peer review, which collectively include the following elements: a. a description of the scope of the peer review, including any limitations; b. a rating concluding on whether the system of quality control of the reviewed audit organization was adequately designed and complied with during the period reviewed and would provide the audit organization with reasonable assurance that it conformed to professional standards and applicable legal and regulatory requirements; c. specification of the professional standards and applicable legal and regulatory requirements to which the reviewed audit organization is being held; d. reference to a separate written communication, if issued under the peer review program; e. a statement that the peer review was conducted in accordance with GAGAS peer review requirements; and f. a detailed description of the findings, conclusions, and recommendations related to any deficiencies or significant deficiencies identified in the review.</p>
<p>3.101</p>	<p>The peer review team uses professional judgment in deciding the type of peer review report. The following are the types of peer review reports. a. Peer Review Rating of Pass: A conclusion that the audit organization's system of quality</p>	<p>5.72</p>	<p>The peer review team should use professional judgment in deciding on the type of peer review rating to issue; the ratings are as follows: a. Peer review rating of pass: A conclusion that the audit organization's system of quality control has been suitably designed and complied with to</p>

	<p>control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.</p> <p>b. Peer Review Rating of Pass with Deficiencies: A conclusion that the audit organization’s system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.</p> <p>c. Peer Review Rating of Fail: A conclusion, based on the significant deficiencies that are described in the report, that the audit organization’s system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, or the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.</p>	<p>provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.</p> <p>b. Peer review rating of pass with deficiencies: A conclusion that the audit organization’s system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects with the exception of a certain deficiency or deficiencies described in the report.</p> <p>c. Peer review rating of fail: A conclusion, based on the significant deficiencies described in the report, that the audit organization’s system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects, or that the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.</p>
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N/A	NEW	5.73	<p>The peer review team should determine the type of peer review rating to issue based on the observed matters' importance to the audit organization's system of quality control as a whole and the nature, causes, patterns, and pervasiveness of those matters. The matters should be assessed both alone and in aggregate.</p>
N/A	NEW	5.74	<p>The peer review team should aggregate and systematically evaluate any observed matters (circumstances that warrant further consideration by the peer review team) and document its evaluation.³⁷ The peer review team should perform its evaluation and issue report ratings as follows:</p> <ul style="list-style-type: none"> a. If the peer review team's evaluation of observed matters does not identify any findings (more than a remote possibility that the reviewed audit organization would not perform, report, or both in conformity with professional standards and applicable legal and regulatory requirements), or identifies findings that are not considered to be deficiencies, the peer review team issues a pass rating. b. If the peer review team's evaluation of findings identified deficiencies but did not identify any significant deficiencies, the peer review team issues a pass with deficiencies rating and communicates the deficiencies in its report. c. If the peer review team's evaluation of deficiencies identified significant deficiencies, the peer review team issues a fail rating and

			communicates the deficiencies and significant deficiencies in its report.
			³⁷ See fig. 3 for a flowchart on developing peer review communications for observed matters in accordance with GAGAS.
N/A	NEW	5.75	Deficiencies are findings that because of their nature, causes, pattern, or pervasiveness, including their relative importance to the audit organization's system of quality control taken as a whole, could create a situation in which the audit organization would not have reasonable assurance of performing, reporting, or both in conformity with professional standards and applicable legal and regulatory requirements in one or more important respects.
N/A	NEW	5.76	Significant deficiencies are one or more deficiencies that the peer reviewer concludes result from a condition in the audit organization's system of quality control or compliance with that system such that the system taken as a whole does not provide reasonable assurance of performing, reporting, or both in conformity with professional standards and applicable legal and regulatory requirements.
3.102	When the scope of the review is limited by conditions that preclude the application of one or more peer review procedures considered necessary in the circumstances and the peer reviewer cannot accomplish the objectives of those procedures through alternative procedures, the types of reports described in paragraphs 3.101 a-c are modified by including statements in the report's scope paragraph, body and opinion	5.92	When the scope of the peer review is limited by conditions that preclude the application of one or more peer review procedures considered necessary in the circumstances and the peer review team cannot accomplish the objectives of those procedures through alternative procedures, the report can be modified by including a statement in the report's scope paragraph, body, and opinion paragraph. The statement describes the relationship of the

	paragraph. These statements describe the relationship of the excluded audit(s) or functional area(s) to the reviewed organization's full scope of practice and system of quality control and the effects of the exclusion on the scope and results of the review.		excluded engagement(s) or functional area(s) to the reviewed audit organization's full scope of practice as a whole and system of quality control and the effects of the exclusion on the scope and results of the review.
N/A	NEW	5.93	If the reviewed audit organization receives a report with a peer review rating of pass with deficiencies or fail, the reviewed audit organization should respond in writing to the deficiencies or significant deficiencies and related recommendations identified in the report.
N/A	NEW	5.94	With respect to each deficiency or significant deficiency in the report, the reviewed audit organization should describe in its letter of response the corrective actions already taken, target dates for planned corrective actions, or both.
N/A	NEW	5.95	When an audit organization receives a peer review rating of pass with deficiencies or fail that relates to its GAGAS engagements, critical evaluation of the design and implementation of the system of quality control is a factor in determining the audit organization's ability to accept and perform future GAGAS engagements.
N/A	NEW		Figure 3: Developing Peer Review Communications for Observed Matters in Accordance with Generally Accepted Government Auditing Standards

	organization should provide the peer review report to others upon request. If a separate communication detailing findings, conclusions, and recommendations is issued, public availability of that communication is not required. Internal audit organizations that report internally to management and those charged with governance should provide a copy of the peer review report to those charged with governance.		An external audit organization should satisfy the publication requirement for its peer review report by posting the report on a publicly available website or to a publicly available file. Alternatively, if neither of these options is available, then the audit organization should use the same mechanism it uses to make other reports or documents public.
	⁵⁰ See paragraph 1.07b for the definition of “audit organizations” and paragraph 1.08 for discussion of external audit organizations. ⁵¹ See paragraph A3.12 for additional discussion of peer review report transparency.		
3.106	Information in peer review reports may be relevant to decisions on procuring audits. Therefore, audit organizations seeking to enter into a contract to perform an audit in accordance with GAGAS should provide the following to the party contracting for such services when requested: a. the audit organization’s most recent peer review report, and b. any subsequent peer review reports received during the period of the contract.	5.79	Because information in peer review reports may be relevant to decisions on procuring audit services, an audit organization seeking to enter into a contract to conduct a performance audit in accordance with GAGAS should provide the following to the party contracting for such services when requested: a. the audit organization’s most recent peer review report and b. any subsequent peer review reports received during the period of the contract.
3.107	Auditors who are using another audit organization’s work should request a copy of the audit organization’s latest peer review report and any other written communication issued, and the audit organization should provide these documents when requested. ⁵²	5.80	Auditors who are using another audit organization’s work should request a copy of that organization’s most recent peer review report, and the organization should provide this document when it is requested.
	⁵² See paragraphs 6.40 through 6.44 for additional discussion on using the work of other auditors.		

<p>4.01</p>	<p>This chapter contains requirements, guidance, and considerations for performing and reporting on financial audits conducted in accordance with generally accepted government auditing standards (GAGAS). GAGAS incorporates by reference the American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards (SAS), as discussed in paragraph 2.08.⁵³ All sections of the SASs are incorporated, including the introduction, objectives, definitions, requirements, and application and other explanatory material. Auditors performing financial audits in accordance with GAGAS should comply with the incorporated SASs and the additional requirements in this chapter. The requirements and guidance contained in chapters 1 through 3 also apply to financial audits performed in accordance with GAGAS.</p>	<p>6.01</p>	<p>This chapter contains requirements and guidance for conducting and reporting on financial audits conducted in accordance with generally accepted government auditing standards (GAGAS). GAGAS incorporates by reference the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards (SAS).³⁹ All sections of the SAS are incorporated, including the introduction, objectives, definitions, requirements, and application material. GAGAS does not incorporate the AICPA Code of Professional Conduct by reference but recognizes that certain certified public accountants (CPA) may use or may be required to use the code in conjunction with GAGAS.⁴⁰ For financial audits conducted in accordance with GAGAS, the requirements and guidance in the incorporated SAS and this chapter apply. The requirements and guidance contained in chapters 1 through 5 also apply.</p>
	<p>⁵³See the AICPA Codification of Statements on Auditing Standards and paragraph 2.20 for additional discussion on the relationship between GAGAS and other professional standards.</p>		<p>³⁹See para. 2.13 and the AICPA Codification of Statements on Auditing Standards (AU-C) for additional discussion of the relationship between GAGAS and other professional standards. ⁴⁰See para. 2.14 for a discussion of the AICPA Code of Professional Conduct.</p>
<p>4.02</p>	<p>GAGAS establishes requirements for performing financial audits in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements, along with the incorporated SAS's, when citing GAGAS in their reports. The additional requirements for</p>	<p>6.02</p>	<p>GAGAS establishes requirements for financial audits in addition to the requirements in the AICPA SAS. Auditors should comply with these additional requirements, along with the AICPA requirements for financial audits, when citing GAGAS in financial audit reports.</p>

	<p>performing financial audits relate to: a. auditor communication; b. previous audits and attestation engagements; c. fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse; d. developing elements of a finding; and e. audit documentation.⁵⁴</p>		
	<p>⁵⁴See paragraphs 4.03 through 4.16 for additional discussion of paragraph 4.02 a-e.</p>		
4.03	<p>In addition to the AICPA requirements for auditor communication,⁵⁵ when performing a GAGAS financial audit, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated to individuals contracting for or requesting the audit, and to cognizant legislative committees when auditors perform the audit pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity. This requirement does not apply if the law or regulation requiring an audit of the financial statements does not specifically identify the entities to be audited, such as audits required by the Single Audit Act Amendments of 1996.</p>	<p>6.06</p> <p>6.08</p>	<p>If the law or regulation requiring an audit specifically identifies the entities to be audited, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated both to individuals contracting for or requesting the audit and to those legislative committees, if any, that have ongoing oversight responsibilities for the audited entity.</p> <p>One example of a law or regulation requiring an audit that does not specifically identify the entities to be audited is the Single Audit Act Amendments of 1996.</p>
	<p>⁵⁵See AICPA AU Section 260, The Auditor's Communication With Those Charged With Governance.</p>		
4.04	<p>In those situations where there is not a single individual or group that both oversees the strategic direction of the audited entity and the fulfillment of its accountability obligations or in other situations where the identity of</p>	6.07	<p>If the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached in identifying the appropriate individuals to receive the required auditor communications.</p>

	those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications.		
4.05	When performing a GAGAS audit, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements or other financial data significant to the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.	6.11	When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a significant effect on the subject matter. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work and determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.
4.06	In addition to the AICPA requirements concerning fraud ⁵⁶ and noncompliance with provisions of laws and regulations, ⁵⁷ when performing a GAGAS financial audit, auditors should extend the AICPA requirements pertaining to the auditors' responsibilities for laws and regulations to also apply to	6.15	Auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include consideration of noncompliance with provisions of contracts and grant agreements. ⁴³

	consideration of compliance with provisions of contracts or grant agreements.		
	⁵⁶ See AICPA AU Section 240, Consideration of Fraud in a Financial Statement Audit (Redrafted). ⁵⁷ See AICPA AU Section 250, Consideration of Laws and Regulations in an Audit of Financial Statements.		⁴³ See AU-C section 250, Consideration of Laws and Regulations in an Audit of Financial Statements (AICPA, Professional Standards).
4.07	Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. ⁵⁸ Abuse does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, or grant agreements.	6.23	Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
	⁵⁸ See A.08 for additional examples of abuse.		
4.08	Because the determination of abuse is subjective, auditors are not required to detect abuse in financial audits. However, as part of a GAGAS audit, if auditors become aware of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives, auditors should apply audit procedures specifically directed to ascertain the potential effect on the financial statements or other financial data significant	6.20	Given the concept of accountability for use of public resources and government authority, evaluating internal control in a government environment may also include considering internal control deficiencies that result in waste or abuse. Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in financial audits. However, auditors may consider whether and how to communicate such matters if they become

	to the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.		aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.
N/A	NEW	6.21	Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.
N/A	NEW	6.22	The following are examples of waste, depending on the facts and circumstances: a. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive. b. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.
4.09	Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. Laws, regulations, or policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When	6.12 6.13	Auditors should inquire of management of the audited entity whether any investigations or legal proceedings have been initiated or are in process with respect to the period under audit, and should evaluate the effect of initiated or in-process investigations or legal proceedings on the current audit. Laws, regulations, or policies may require auditors to report indications of certain types of fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; to

	<p>investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit engagement or a portion of the engagement to avoid interfering with an ongoing investigation or legal proceeding.</p>	<p>6.14</p>	<p>law enforcement or investigatory authorities before performing additional audit procedures.</p> <p>Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the engagement or a portion of the engagement to avoid interfering with an ongoing investigation or legal proceeding.</p>
<p>4.10</p>	<p>In a financial audit, findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; fraud; or abuse. As part of a GAGAS audit, when auditors identify findings, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives. The elements of a finding are discussed in paragraphs 4.11 through 4.14 below.</p>	<p>6.17</p> <p>6.19</p>	<p>When auditors identify findings, auditors should plan and perform procedures to develop the criteria, condition, cause, and effect of the findings to the extent that these elements are relevant and necessary to achieve the audit objectives.</p> <p>Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud.</p>
<p>N/A</p>	<p>NEW</p>	<p>6.18</p>	<p>Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the cause element of the identified findings.</p>

<p>4.11</p>	<p>Criteria: The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.</p>	<p>6.25</p>	<p>Criteria: For inclusion in findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report. In a financial audit, the applicable financial reporting framework, such as generally accepted accounting principles, represents one set of criteria.</p>
<p>4.12</p>	<p>Condition: Condition is a situation that exists. The condition is determined and documented during the audit</p>	<p>6.26</p>	<p>Condition: Condition is a situation that exists. The condition is determined and documented during the audit.</p>
<p>4.13</p>	<p>Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a</p>	<p>6.27</p>	<p>Cause: The cause is the factor or factors responsible for the difference between the condition and the criteria, which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the</p>

	reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.		difference between the condition and the criteria.
4.14	Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.	6.28	Effect or potential effect: The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, effect is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.
N/A	NEW	6.29	Regardless of the type of finding identified, the cause of a finding may relate to one or more underlying internal control deficiencies. Depending on the magnitude of impact, likelihood of occurrence, and nature of the deficiency, the deficiency could be a significant deficiency or material weakness in a financial audit.⁴⁴
			⁴⁴ See AU-C section 265, Communicating Internal Control Related Matters Identified in an Audit (AICPA, Professional Standards).
N/A	NEW	6.30	Considering internal control in the context of a comprehensive internal control framework, such as Standards for Internal Control in the Federal Government or Internal Control—Integrated

	<p>the audit is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit. This applies to departures from unconditional requirements and presumptively mandatory requirements when alternative performed in the circumstances were not sufficient to achieve the objectives of the requirements.⁶¹</p>	<p>6.33</p>	<p>When documenting departures from the GAGAS requirements, the audit documentation requirements apply to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the requirements.</p>
	<p>⁵⁹See AICPA AU Section 230, Audit Documentation. ⁶⁰See paragraphs 4.04, 4.06, 4.26, and 4.45 for additional documentation requirements regarding financial audits. ⁶¹See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS.</p>		
<p>4.16</p>	<p>When performing GAGAS financial audits and subject to applicable provisions of laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers. Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to perform a financial audit in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals, as well as audit documentation.</p>	<p>6.34</p> <p>6.35</p>	<p>Subject to applicable provisions of laws and regulations, auditors should make appropriate individuals, and audit documentation, available upon request and in a timely manner to other auditors or reviewers.</p> <p>Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to conduct financial audits in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals and to audit documentation.</p>

	GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. Additionally, an entity receiving a GAGAS auditors' report may also request auditors to issue a financial audit report for purposes other than complying with requirements for a GAGAS audit. GAGAS does not prohibit auditors from issuing a separate report conforming only to AICPA or other standards. ⁶⁶		not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards. ⁴⁷
	⁶⁴ See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS. ⁶⁵ See paragraph 2.08 for a discussion of the AICPA SASs incorporated into GAGAS. ⁶⁶ See AICPA AU Section 700, Forming an Opinion and Reporting on Financial Statements.		⁴⁶ See paras. 2.16 through 2.19 for information on the GAGAS compliance statement. ⁴⁷ See AU-C section 700, Forming an Opinion and Reporting on Financial Statements (AICPA, Professional Standards).
N/A	NEW	6.38	When disclaiming an opinion on a financial audit, auditors may revise the statement that the auditor was engaged to audit the financial statements. ⁴⁸ For example, auditors may state that they were engaged to conduct the audit in accordance with GAGAS or that the auditors' work was conducted in accordance with GAGAS, depending on whether the use of GAGAS is required or voluntary. Determining how to revise this statement is a matter of professional judgment.
			⁴⁸ See AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (AICPA, Professional Standards).
4.19	When providing an opinion or a disclaimer on financial statements, auditors should also report on internal control over financial reporting ⁶⁷ and on compliance with provisions	6.40	When providing an opinion or a disclaimer on financial statements, auditors should report as findings any significant deficiencies or material weaknesses in internal control over financial

	<p>of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements.⁶⁸ Auditors report on internal control and compliance, regardless of whether or not they identify internal control deficiencies or instances of noncompliance.</p>	<p>6.39</p>	<p>reporting that the auditors identified based on the engagement work performed.</p> <p>Auditors should report on internal control and compliance with provisions of laws, regulations, contracts, or grant agreements regardless of whether they identify internal control deficiencies or instances of noncompliance.</p>
	<p>⁶⁷See paragraph A.05 for examples of deficiencies in internal control. ⁶⁸See paragraph A.11 for additional discussion of laws, regulations, and provisions of contract and grant agreements.</p>		<p>⁴⁸See AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (AICPA, Professional Standards).</p>
<p>4.20</p>	<p>Auditors should include either in the same or in separate report(s) a description of the scope of the auditors' testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, or grant agreements. Auditors should also state in the reports whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, or grant agreements.</p>	<p>6.42</p>	<p>Auditors should include either in the same or in separate report(s) a description of the scope of the auditors' testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, and grant agreements. Auditors should also state in the report(s) whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, and grant agreements.</p>
<p>4.21</p>	<p>The objective of the GAGAS requirement for reporting on internal control over financial reporting differs from the objective of an examination of internal control in accordance with the AICPA Statement on Standards for Attestation Engagements (SSAE), which is to</p>		

	<p>express an opinion on the design or the design and operating effectiveness of an entity's internal control, as applicable. To form a basis for expressing such an opinion, the auditor would need to plan and perform the examination to provide a high level of assurance about whether the entity maintained, in all material respects, effective internal control over financial reporting as of a point in time or for a specified period of time.⁶⁹ If auditors issue an opinion on internal control, the opinion would satisfy the GAGAS requirement for reporting on internal control.</p>		
	<p>⁶⁹See AICPA AT Section 501, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i>.</p>		
<p>4.22</p>	<p>If auditors report separately (including separate reports bound in the same document) on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements, they should state in the auditors' report on the financial statements that they are issuing those additional reports. They should include a reference to the separate reports and also state that the reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements are an integral part of a GAGAS audit in</p>	<p>6.43</p>	<p>If auditors report separately (including separate reports bound in the same document) on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements, they should include a reference in the audit report on the financial statements to those additional reports. They should also state in the audit report that the reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements are an integral part of a GAGAS audit in considering the audited entity's internal control over financial reporting and compliance.</p>

	<p>considering the audited entity's internal control over financial reporting and compliance.</p>		<p>If separate reports are used, the auditors should make the report on internal control and compliance available to users in the same manner as the financial audit report to which it relates.</p>
<p>4.24</p> <p>4.23</p>	<p>The AICPA requirements to communicate in writing significant deficiencies and material weaknesses identified during an audit⁷⁰ form the basis for reporting significant deficiencies and material weaknesses in the GAGAS report on internal control over financial reporting when deficiencies are identified during the audit.</p> <p>When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.</p>	<p>6.45</p>	<p>The GAGAS requirement to report on internal control over financial reporting is based on the AICPA requirements to communicate in writing to those charged with governance significant deficiencies and material weaknesses in internal control over financial reporting identified during an audit. The objective of the GAGAS internal control reporting requirement for financial audits is to increase the availability of information on significant deficiencies and material weaknesses to users of financial statements other than those charged with governance.</p>

	⁷⁰ See AICPA AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit.		
4.25	When performing a GAGAS financial audit, and auditors conclude, based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their report on internal control and compliance the relevant information about a. fraud ⁷¹ and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance; b. noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or c. abuse ⁷² that is material, either quantitatively or qualitatively. ⁷³	6.41	Auditors should include in their report on internal control or compliance the relevant information about noncompliance and fraud when auditors, based on sufficient, appropriate evidence, identify or suspect a. noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the financial statements or other financial data significant to the audit objectives or b. fraud that is material, either quantitatively or qualitatively, to the financial statements or other financial data significant to the audit objectives.
	⁷¹ See paragraph A.10 for examples of indicators of fraud risk. ⁷² See paragraph A.08 for examples of abuse. ⁷³ See paragraphs 4.07 and 4.08 for a discussion of abuse		
4.26	When auditors detect instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements or other	6.44	Auditors should communicate in writing to audited entity officials when a. identified or suspected noncompliance with provisions of laws, regulations, contracts, or

	<p>financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate to audited entity officials is a matter of professional judgment. Auditors should document such communications.</p>	<p>6.48</p>	<p>grant agreements comes to the auditor's attention during the course of an audit that has an effect on the financial statements or other financial data significant to the audit objectives that is less than material but warrants the attention of those charged with governance or b. the auditor has obtained evidence of identified or suspected instances of fraud that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance.</p> <p>When identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements that does not warrant the attention of those charged with governance comes to the auditor's attention during the course of the audit, the auditors' determination of how to communicate such instances to audited entity officials is a matter of professional judgment. When identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements is clearly inconsequential, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.</p>
<p>N/A</p>	<p>NEW</p>	<p>6.46</p>	<p>Internal control plays an expanded role in the government sector. Given the government's accountability for public resources, assessing internal control in a government environment may involve consideration of controls that would</p>

			not be required in the private sector. In the government sector, evaluating controls that are relevant to the audit involves understanding significant controls that the audited entity designed, implemented, and operated as part of its responsibility for oversight of public resources.
N/A	NEW	6.47	The audit report on internal control and compliance with provisions of laws, regulations, contracts, and grant agreements relates only to the most recent reporting period included, when comparative financial statements are presented.
4.27	When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.	6.49	When auditors identify or suspect noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.
4.28	When performing a GAGAS financial audit and presenting findings such as deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should develop the elements of the findings to the extent	6.50 6.52	When presenting findings, auditors should develop the elements of the findings to the extent necessary to assist management or oversight officials of the audited entity in understanding the need for corrective action.

	necessary, including findings related to deficiencies from the previous year that have not been remediated. Clearly developed findings, as discussed in paragraphs 4.10 through 4.14, assist management or oversight officials of the audited entity in understanding the need for taking corrective action, and assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.		Along with assisting management or oversight officials of the audited entity in understanding the need for corrective action, clearly developed findings assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.
4.29	Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.	6.51	Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately
4.30	Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances. a. When entity management fails to satisfy legal or regulatory requirements to report	6.53	Auditors should report identified or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements and instances of fraud directly to parties outside the audited entity in the following two circumstances. a. When audited entity management fails to satisfy legal or regulatory requirements to report

	<p>such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p> <p>b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is likely to have a material effect on the financial statements and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.</p>		<p>such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p> <p>b. When audited entity management fails to take timely and appropriate steps to respond to fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that (1) is likely to have a material effect on the subject matter and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the audited entity's failure to take timely and appropriate steps directly to the funding agency.</p>
<p>4.31</p>	<p>The reporting in paragraph 4.30 is in addition to any legal requirements to report such information directly to parties outside the audited entity. Auditors should comply with</p>	<p>6.54</p>	<p>Auditors should comply with the requirements in paragraph 6.53 even if they have resigned or been dismissed from the audit prior to its completion.</p>

	these requirements even if they have resigned or been dismissed from the audit prior to its completion.	6.56	The reporting in paragraph 6.53 is in addition to any legal requirements to report such information directly to parties outside the audited entity.
4.32	Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraphs 4.30 and 4.31 .	6.55	Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate representations by management of the audited entity that it has reported audit findings in accordance with provisions of laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraphs 6.53 and 6.54 .
4.33	When performing a GAGAS financial audit, if the auditors' report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.	6.57	Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations in the audit report, as well as any planned corrective actions.
4.34	Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also	6.61	Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations but also the perspectives of

<p>4.36</p>	<p>the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable.</p> <p>Auditors should also include in the report an evaluation of the comments, as appropriate.</p> <p>In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received.</p>		<p>the audited entity’s responsible officials and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received. Technical comments address points of fact or are editorial in nature and do not address substantive issues, such as methodology, findings, conclusions, or recommendations.</p>
<p>4.35</p>	<p>When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials’ written comments, or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.</p>	<p>6.58</p>	<p>When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials’ written comments or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments, provide a copy of the summary to the responsible officials to verify that the comments are accurately represented, and include the summary in their report.</p>
<p>4.37</p>	<p>Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user’s needs; auditors have worked closely with the responsible officials throughout the work and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with findings, conclusions, or recommendations in</p>	<p>6.62</p>	<p>Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user’s needs; auditors have worked closely with the responsible officials throughout the work, and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with findings, conclusions, or recommendations in the draft report or major</p>

	the draft report, or major controversies with regard to the issues discussed in the draft report.		controversies with regard to the issues discussed in the draft report.
4.38	When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.	6.59	When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported by sufficient, appropriate evidence.
4.39	If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.	6.60	If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors should issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.
4.40	When performing a GAGAS financial audit, if certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain	6.63	If certain information is prohibited from public disclosure or is excluded from a report because of its confidential or sensitive nature, auditors should disclose in the report that certain information has been omitted and the circumstances that make the omission necessary.

	information has been omitted and the reason or other circumstances that make the omission necessary.		
4.41	Certain information may be classified or may otherwise be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified, or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.	6.67	Certain information may be classified or may otherwise be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified, or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.
4.42	Additional circumstances associated with public safety, privacy, or security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that could be caused by the misuse of this information. In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may be appropriate to issue both a publicly available report with the sensitive information excluded and a limited use report. The auditors may consult with legal counsel regarding any requirements or other circumstances that may necessitate the omission of certain information.	6.68	Additional circumstances associated with public safety, privacy, or security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that misuse of this information could cause. In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may be appropriate to issue both a publicly available report with the sensitive information excluded and a limited use report. The auditors may consult with legal counsel regarding any requirements or other circumstances that may necessitate omitting certain
4.43			

			information orally. The auditors may consult with legal counsel regarding applicable public records laws.
N/A	NEW	6.66	If the report refers to the omitted information, the reference may be general and not specific. If the omitted information is not necessary to meet the audit objectives, the report need not refer to its omission
4.45	<p>Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on report distribution.⁷⁴</p> <p>The following discussion outlines distribution for reports completed in accordance with GAGAS:</p> <p>a. Audit organizations in government entities should distribute auditors' reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.</p>	6.70	<p>Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited entity and the nature of the information contained in the reports. Auditors should document any limitation on report distribution.</p> <p>a. Audit organizations in a government entity should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports.</p> <p>b. A public accounting firm contracted to conduct an audit in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the</p>

	<p>b. Internal audit organizations in government entities may also follow the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing.⁷⁵ In accordance with GAGAS and IIA standards, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should: (1) assess the potential risk to the organization, (2) consult with senior management or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report. c. Public accounting firms contracted to perform an audit in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>		<p>audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>
	<p>⁷⁴See paragraphs 4.41 and 4.42 for discussion of limited use reports containing confidential or sensitive information. ⁷⁵See paragraph 2.21 for additional discussion about using the IIA standards in conjunction with GAGAS and paragraph</p>		

	2.22 for additional discussion about citing compliance with another set of standards.		
4.46	Due to the objectives and public accountability of GAGAS audits, additional considerations for financial audits completed in accordance with GAGAS may apply. These considerations relate to a. materiality in GAGAS financial audits; and b. early communication of deficiencies. ⁷⁶		
	⁷⁶ See paragraphs 4.47 through 4.48 for additional discussion of paragraph 4.46 a-b.		
4.47	The AICPA standards require the auditor to apply the concept of materiality appropriately in planning and performing the audit. ⁷⁷ Additional considerations may apply to GAGAS financial audits of government entities or entities that receive government awards. For example, in audits performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.	6.03	Standards used in conjunction with GAGAS require the auditors to apply the concept of materiality appropriately in planning and performing the audit. ⁴¹ Additional considerations may apply to GAGAS engagements that concern government entities or entities that receive government awards. For example, for engagements conducted in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels than those used in non-GAGAS audits because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.
	⁷⁷ See AICPA AU Section 320, Materiality in Planning and Performing an Audit.		⁴¹ See AU-C section 320, Materiality in Planning and Performing an Audit (AICPA, Professional Standards).
4.48	For some matters, early communication to those charged with governance or management may be important because of the relative significance and the urgency for corrective follow-up action. ⁷⁸ Further, when a	6.09	For some matters, early communication to management or those charged with governance may be important because of the relative significance and the urgency for corrective follow-up action. ⁴² Further, early communication

	<p>control deficiency results in noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance. When a deficiency is communicated early, the reporting requirements in paragraphs 4.19 through 4.23 still apply.</p>		<p>is important to allow management to take prompt corrective action to prevent further occurrences when a control deficiency results in identified or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements or identified or suspected instances of fraud. When a deficiency is communicated early, the reporting requirements and application guidance in paragraphs 6.39 through 6.49 still apply.</p>
	<p>⁷⁸See AICPA AU Section 265, Communicating Internal Control Related Matters Identified in an Audit.</p>		<p>⁴²See AU-C section 265, Communicating Internal Control Related Matters Identified in an Audit (AICPA, Professional Standards).</p>
<p>5.01</p>	<p>This chapter contains requirements, guidance, and considerations for performing and reporting on attestation engagements conducted in accordance with generally accepted government auditing standards (GAGAS). Auditors performing attestation engagements in accordance with GAGAS should comply with the American Institute of Certified Public Accountants (AICPA) general attestation standard on criteria, the field work and reporting attestation standards, and the corresponding statements on standards for attestation engagements (SSAEs), which are incorporated in this chapter by reference.⁷⁹ Auditors performing attestation engagements in accordance with GAGAS should also comply with the additional requirements in this chapter. The requirements and guidance contained in chapters 1 through 3 also apply to attestation engagements performed in accordance with GAGAS.</p>	<p>7.01</p>	<p>This chapter contains requirements and guidance for conducting and reporting on attestation engagements and reviews of financial statements conducted in accordance with generally accepted government auditing standards (GAGAS). For attestation engagements, GAGAS incorporates by reference the American Institute of Certified Public Accountants' (AICPA) Statements on Standards for Attestation Engagements (SSAE). For reviews of financial statements, GAGAS incorporates by reference AICPA's AR-C section 90, Review of Financial Statements.⁴⁹ All sections of the cited standards are incorporated, including the introduction, objectives, definitions, requirements, and application and other explanatory material. GAGAS does not incorporate the AICPA Code of Professional Conduct by reference but recognizes that certain certified public accountants (CPA) may use or may be required to use the code in</p>

			conjunction with GAGAS. ⁵⁰ For attestation engagements and reviews of financial statements conducted in accordance with GAGAS, the requirements and guidance in the respective incorporated standards and this chapter apply. The requirements and guidance contained in chapters 1 through 5 also apply.
	⁷⁹ See AT Section 50, SSAE Hierarchy.		⁴⁹ AICPA, Professional Standards. ⁵⁰ See para. 2.14 for a discussion of the AICPA Code of Professional Conduct.
5.02	An attestation engagement can provide one of three levels of service as defined by the AICPA, namely an examination engagement, a review engagement, or an agreed-upon procedures engagement. ⁸⁰ Auditors performing an attestation engagement should determine which of the three levels of service apply to that engagement and refer to the appropriate AICPA standards and GAGAS section below for applicable requirements and considerations.	7.02	An attestation engagement can provide one of three levels of service as defined by the AICPA: an examination engagement, a review engagement, or an agreed-upon procedures engagement.
	⁸⁰ See paragraph 2.09 and AT 101, Attest Engagements.		
5.03	GAGAS establishes field work requirements for performing examination engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with these additional requirements, along with the relevant AICPA standards for examination attestation engagements, when citing GAGAS in their examination reports. The additional field work requirements relate to: a. auditor communication;		

	<p>b. previous audits and attestation engagements;</p> <p>c. fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse;</p> <p>d. developing elements of a finding; and</p> <p>e. examination engagement documentation.⁸¹</p>		
	<p>⁸¹See paragraphs 5.04 through 5.17 for additional discussion of 5.03 a-e.</p>		
5.04	<p>In addition to the AICPA requirements for auditor communication,⁸² when performing a GAGAS examination engagement, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated to individuals contracting for or requesting the examination engagement, and to cognizant legislative committees when auditors perform the examination engagement pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.</p>	7.09	<p>If the law or regulation requiring an examination engagement specifically identifies the entities to be examined, auditors should communicate pertinent information that in the auditors' professional judgment needs to be communicated both to individuals contracting for or requesting the examination and to those legislative committees, if any, that have ongoing oversight responsibilities for the audited entity.</p>
	<p>⁸²See AT Section 101.14 and 101.46, Attest Engagements.</p>		
5.05	<p>In those situations where there is not a single individual or group that both oversees the strategic direction of the audited entity and the fulfillment of its accountability obligations or in other situations where the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached for</p>	7.10	<p>If the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached in identifying the appropriate individuals to receive the required communications.</p>

	identifying the appropriate individuals to receive the required auditor communications.		
5.06	<p>When performing a GAGAS examination engagement, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the subject matter, or an assertion about the subject matter, of the examination engagement. When planning the engagement, auditors should ask audited entity management to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter or an assertion about the subject matter of the examination engagement being undertaken, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current examination engagement objectives.</p>	7.13	<p>When planning a GAGAS examination engagement, auditors should ask management of the audited entity to identify previous audits, attestation engagements, and other studies that directly relate to the subject matter or an assertion about the subject matter of the examination engagement, including whether related recommendations have been implemented. Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a significant effect on the subject matter or an assertion about the subject matter. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current work and determining the extent to which testing the implementation of the corrective actions is applicable to the current examination engagement objectives.</p>
N/A	NEW	7.14	<p>Auditors should inquire of management of the audited entity whether any investigations or legal proceedings significant to the engagement objectives have been initiated or are in process with respect to the period under examination, and should evaluate the effect of initiated or in-</p>

			process investigations or legal proceedings on the current examination engagement.
5.07	<p>In addition to the AICPA requirements concerning fraud,⁸³ when performing a GAGAS examination engagement, auditors should design the engagement to detect instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that may have a material effect on the subject matter or the assertion thereon of the examination engagement. Auditors should assess the risk and possible effects of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a material effect on the subject matter or an assertion about the subject matter of the examination engagement. When risk factors are identified, auditors should document the risk factors identified, the auditors' response to those risk factors individually or in combination, and the auditors' conclusions.⁸⁴</p>		
	<p>⁸³See AICPA AT Sections 501.27, An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements, 601.33, Compliance Attestation, and 701.42, Management's Discussion and Analysis.</p> <p>⁸⁴See paragraphs A.09 through A.13 for additional discussion of indicators of fraud risk and significance of provisions of laws,</p>		

	regulations, and contracts and grant agreements.		
5.08	Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. ⁸⁵ Abuse does not necessarily involve fraud, or noncompliance with provisions of laws, regulations, contracts, or grant agreements.	7.25	Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
	⁸⁵ See A.08 for additional examples of abuse.		
5.09	Because the determination of abuse is subjective, auditors are not required to detect abuse in examination engagements. However, as part of a GAGAS examination engagement, if auditors become aware of abuse that could be quantitatively or qualitatively material, auditors should apply procedures specifically directed to ascertain the potential effect on the subject matter, or the assertion thereon, or other data significant to the objective of the examination engagement. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.	7.22	Given the concept of accountability for use of public resources and government authority, evaluating internal control in a government environment may also include considering internal control deficiencies that result in waste or abuse. Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in examinations. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.
N/A	NEW	7.23	Waste is the act of using or expending resources carelessly, extravagantly, or to no

			purpose. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.
N/A	NEW	7.24	<p>The following are examples of waste, depending on the facts and circumstances:</p> <ul style="list-style-type: none"> a. Making travel choices that are contrary to existing travel policies or are unnecessarily extravagant or expensive. b. Making procurement or vendor selections that are contrary to existing policies or are unnecessarily extravagant or expensive.
5.10	<p>Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. Laws, regulations, or policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current examination engagement. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the examination engagement or a portion of the examination engagement to avoid interfering</p>	<p>7.16</p> <p>7.15</p>	<p>Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities or to withdraw from or defer further work on the attestation engagement or a portion of the engagement to avoid interfering with an ongoing investigation or legal proceeding.</p> <p>Laws, regulations, or policies may require auditors to report indications of certain types of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements to law enforcement or investigatory authorities before performing additional examination procedures.</p>

	operation. Criteria provide a context for evaluating evidence and understanding the findings.		respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report.
5.13	Condition: Condition is a situation that exists. The condition is determined and documented during the engagement.	7.28	Condition: Condition is a situation that exists. The condition is determined and documented during the attestation engagement.
5.14	Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.	7.29	Cause: The cause is the factor or factors responsible for the difference between the condition and the criteria, which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria.
5.15	Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the engagement objectives include identifying the actual or potential consequences of a condition that varies (either positively or	7.30	Effect or potential effect: The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. When the engagement objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the engagement, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the

	negatively) from the criteria identified in the engagement, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.		need for corrective action in response to identified problems or relevant risks.
N/A	NEW	7.31	Regardless of the type of finding identified, the cause of a finding may relate to an underlying internal control deficiency. Depending on the magnitude of impact, likelihood of occurrence, and nature of the deficiency, this deficiency could be a significant deficiency or a material weakness.
N/A	NEW	7.32	Considering internal control in the context of a comprehensive internal control framework, such as Standards for Internal Control in the Federal Government or Internal Control—Integrated Framework, ⁵³ can help auditors to determine whether underlying internal control deficiencies exist as the root cause of findings. Identifying these deficiencies can help provide the basis for developing meaningful recommendations for corrective actions.
			⁵³ The Committee of Sponsoring Organizations of the Treadway Commission’s Internal Control—Integrated Framework and Standards for Internal Control in the Federal Government (GAO-14-704G) provide suitable and available criteria against which management may evaluate and report on the effectiveness of the entity’s internal control. Standards for Internal Control in the Federal Government may be adopted by entities beyond those federal entities for which it is legally required, such as state, local, and quasi-governmental entities, as well as other federal entities and not-for-profit organizations, as a framework for an internal control system.
5.16	In addition to AICPA requirements for audit documentation, ⁸⁶ auditors should comply with	7.33	Auditors should comply with the following documentation requirements.

	<p>the following additional requirements when performing a GAGAS examination engagement.⁸⁷</p> <p>a. Prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed and the evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills to be able to perform the examination engagement. These competencies and skills include an understanding of (1) examination engagement processes and related SSAEs,⁸⁸ (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter that the auditors are engaged to report on, (4) the suitability and availability of criteria, and (5) issues related to the audited entity's environment.</p> <p>b. Document supervisory review, before the date of the examination report, of the evidence that supports findings, conclusions, and recommendations contained in the examination report.</p> <p>c. Document any departures from the GAGAS requirements and the impact on the</p>	<p>7.34</p> <p>7.35</p>	<p>a. Before the date of the examination report, document supervisory review of the evidence that supports the findings, conclusions, and recommendations contained in the examination report.</p> <p>b. Document any departures from the GAGAS requirements and the effect on the examination engagement and on the auditors' conclusions when the examination engagement does not comply with applicable GAGAS requirements because of law, regulation, scope limitations, restrictions on access to records, or other issues affecting the examination engagement.</p> <p>In addition to the requirements of the examination engagement standards used in conjunction with GAGAS, auditors should prepare attest documentation in sufficient detail to enable an experienced auditor, having no previous connection to the examination engagement, to understand from the documentation the nature, timing, extent, and results of procedures performed and the evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.</p> <p>When documenting departures from the GAGAS requirements where alternative procedures performed were not sufficient to achieve the objectives of the requirements, the examination engagement documentation requirements apply</p>
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	<p>engagement and on the auditors' conclusions when the examination engagement is not in compliance with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit. This applies to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the requirement.⁸⁹</p>	<p>7.36</p>	<p>to departures from unconditional requirements and presumptively mandatory requirements.</p> <p>An experienced auditor is an individual who possesses the competencies and skills to be able to conduct the examination engagement. These competencies and skills include an understanding of (1) examination engagement processes and related examination standards, (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter on which the auditors are engaged to report, (4) the suitability and availability of criteria, and (5) issues related to the audited entity's environment.</p>
	<p>⁸⁷See paragraphs 5.05, 5.07, 5.25, and 5.44 for additional documentation requirements regarding attestation engagements. ⁸⁸See paragraph 3.74 and 3.75 for additional discussion of qualifications for attestation engagements. ⁸⁹See paragraph 2.15 for a definition of GAGAS requirements.</p>		
<p>5.17</p>	<p>When performing GAGAS examination engagements and subject to applicable laws and regulations, auditors should make appropriate individuals, as well as attest documentation, available upon request and in a timely manner to other auditors or reviewers. Underlying GAGAS engagements is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to perform an engagement in accordance with GAGAS cooperate in performing examination</p>	<p>7.37</p> <p>7.38</p>	<p>Subject to applicable provisions of laws and regulations, auditors should make appropriate individuals and examination engagement documentation available upon request and in a timely manner to other auditors or reviewers.</p> <p>Underlying GAGAS examination engagements is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to conduct an examination engagement in accordance with GAGAS cooperate in evaluating programs of</p>

	<p>field work and reporting attestation standards, and the corresponding SSAEs, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of AICPA or other standards.⁹³</p>		<p>require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards.</p>
	<p>⁹²See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS. ⁹³See AICPA AT Sections 101.85e, Attest Engagements.</p>		<p>⁵⁴See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.</p>
<p>5.20</p>	<p>When performing GAGAS examination engagements, auditors should report, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control;⁹⁴ (2) instances of fraud⁹⁵ and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement; and (4) abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. Auditors should include this information either in the same or in separate report(s).</p>		
	<p>⁹⁴See paragraph A.06 for examples of deficiencies in internal control.</p>		

	⁹⁵ See paragraph A.10 for examples of indicators of fraud risk		
5.21	If auditors report separately (including separate reports bound in the same document) on the items discussed in paragraph 5.20, they should state in the examination report that they are issuing those additional reports. They should include a reference to the separate reports and also state that the reports are an integral part of a GAGAS examination engagement.	7.40	If auditors report separately (including separate reports bound in the same document) on deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud, they should state in the examination report that they are issuing those additional reports. They should include a reference to the separate reports and also state that the reports are an integral part of a GAGAS examination engagement.
5.22	In addition to the AICPA requirements concerning internal control, ⁹⁶ when performing GAGAS examination engagements, including attestation engagements related to internal control, ⁹⁷ auditors should include in the examination report all deficiencies, even those communicated early, ⁹⁸ that are considered to be significant deficiencies or material weaknesses.	7.42	Auditors should include in the examination report all internal control deficiencies, even those communicated early, that are considered to be significant deficiencies or material weaknesses that the auditors identified based on the engagement work performed. ⁵⁵
	⁹⁶ See AT Section 101.52 through 101.53, Attest Engagements. ⁹⁷ See AT Section 501.07, An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements. ⁹⁸ See paragraph 5.47 for a discussion of early communication of deficiencies.		⁵⁵ GAGAS's use of internal control terminology is consistent with the definitions contained in AU-C section 265 (AICPA, Professional Standards).
5.23	Determining whether and how to communicate to officials of the audited entity internal control deficiencies that warrant the attention of those charged with governance, but are not considered significant deficiencies	7.43	Determining whether and how to communicate to officials of the audited entity internal control deficiencies that are not considered significant deficiencies or material weaknesses, is a matter of professional judgment.

	or material weaknesses, is a matter of professional judgment.		
5.24	<p>When performing a GAGAS examination engagement, and auditors conclude, based on sufficient, appropriate evidence, that any of the following either has occurred or is likely to have occurred, they should include in their examination report the relevant information about</p> <ul style="list-style-type: none"> a. fraud⁹⁹ and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance, b. noncompliance with provisions of contracts or grant agreements that has a material effect on the subject matter or an assertion about the subject matter, or c. abuse¹⁰⁰ that is material to the subject matter or an assertion about the subject matter, either quantitatively or qualitatively.¹⁰¹ 	7.44	<p>Auditors should include in their examination report the relevant information about noncompliance and fraud when auditors, based on sufficient, appropriate evidence, identify or suspect</p> <ul style="list-style-type: none"> a. noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the subject matter or an assertion about the subject matter or b. fraud that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter that is significant to the engagement objectives.
	<p>⁹⁹See paragraph A.10 for examples of indicators of fraud risk. ¹⁰⁰See paragraph A.08 for examples of abuse. ¹⁰¹See paragraphs 5.08 and 5.09 for a discussion of abuse.</p>		
5.25	When auditors detect instances of noncompliance with provisions of contracts or	7.45	When auditors identify or suspect noncompliance with provisions of laws,

	<p>grant agreements, or abuse that have an effect on the subject matter or an assertion about the subject matter that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate to audited entity officials is a matter of professional judgment.</p>	<p>7.46</p>	<p>regulations, contracts, or grant agreements or instances of fraud that have an effect on the subject matter or an assertion about the subject matter that are less than material but warrant the attention of those charged with governance, they should communicate in writing to audited entity officials.</p> <p>When auditors identify or suspect noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud that <i>do not warrant</i> the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.</p>
<p>5.26</p>	<p>When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.</p>	<p>7.47</p>	<p>When auditors identify or suspect noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.</p>
<p>5.27</p>	<p>When performing a GAGAS examination engagement and presenting findings such as deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements,</p>	<p>7.48</p>	<p>When presenting findings, auditors should develop the elements of the findings to the extent necessary to assist management or oversight officials of the audited entity in</p>

	<p>or abuse, auditors should develop the elements of the findings to the extent necessary. Clearly developed findings, as discussed in paragraphs 5.11 through 5.15, assist management or oversight officials of the audited entity in understanding the need for taking corrective action, and assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.</p>	<p>7.50</p>	<p>understanding the need for taking corrective action.</p> <p>Along with assisting management or oversight officials of the audited entity in understanding the need for taking corrective action, clearly developed findings assist auditors in making recommendations for corrective action. If auditors sufficiently develop the elements of a finding, they may provide recommendations for corrective action.</p>
<p>5.28</p>	<p>Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.</p>	<p>7.49</p>	<p>Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the findings. To give the reader a basis for judging the prevalence and consequences of the findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.</p>
<p>5.29</p>	<p>Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.</p> <p>a. When entity management fails to satisfy legal or regulatory requirements to report</p>	<p>7.51</p>	<p>Auditors should report identified or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements and instances of fraud directly to parties outside the audited entity in the following two circumstances.</p> <p>a. When audited entity management fails to satisfy legal or regulatory requirements to report</p>

	<p>such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p> <p>b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is likely to have a material effect on the subject matter or an assertion about the subject matter and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.</p>		<p>such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p> <p>b. When audited entity management fails to take timely and appropriate steps to respond to fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements that (1) is likely to have a material effect on the subject matter and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the audited entity's failure to take timely and appropriate steps directly to the funding agency.</p>
<p>5.30</p>	<p>The reporting in paragraphs 5.29 and 5.30 is in addition to any legal requirements to report such information directly to parties outside</p>	<p>7.52</p>	<p>Auditors should comply with the requirements in paragraph 7.51 even if they have resigned or</p>

	the audited entity. Auditors should comply with these requirements even if they have resigned or been dismissed from the engagement prior to its completion.	7.54	been dismissed from the engagement prior to its completion. The reporting in paragraph 7.51 is in addition to any legal requirements to report such information directly to parties outside the audited entity.
5.31	Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraph 5.29 .	7.53	Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate representations by management of the audited entity that it has reported engagement findings in accordance with laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly, as discussed in paragraphs 7.51 and 7.52 .
5.32	When performing a GAGAS examination engagement, if the examination report discloses deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations, as well as any planned corrective actions.	7.55	Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations in the examination report , as well as any planned corrective actions.
5.33	Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings,	7.59	Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and

<p>5.35</p>	<p>conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable.</p> <p>Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received.</p>		<p>recommendations but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable. When the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received. Technical comments address points of fact or are editorial in nature and do not address substantive issues, such as methodology, findings, conclusions, or recommendations.</p>
<p>5.34</p>	<p>When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.</p>	<p>7.56</p>	<p>When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments, provide a copy of the summary to the responsible officials to verify that the comments are accurately represented, and include the summary in their report.</p>
<p>5.36</p>	<p>Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the work and the parties are familiar with the findings and issues</p>	<p>7.60</p>	<p>Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the work, and the parties are familiar with the findings and issues addressed in the</p>

	addressed in the draft report; or the auditors do not expect major disagreements with findings, conclusions, or recommendations in the draft report, or major controversies with regard to the issues discussed in the draft report.		draft report; or the auditors do not expect major disagreements with findings, conclusions, or recommendations in the draft report or major controversies with regard to the issues discussed in the draft report.
5.37	When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.	7.57	When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported by sufficient, appropriate evidence.
5.38	If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.	7.58	If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors should issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.
5.39	When performing a GAGAS examination engagement, if certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information,	7.61	If certain information is prohibited from public disclosure or is excluded from a report because of its confidential or sensitive nature, auditors should disclose in the report that certain information has been omitted and the

	auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.		circumstances that make the omission necessary.
5.40	Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate classified or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.	7.65	Certain information may be classified or may otherwise be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified, or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.
5.41	Additional circumstances associated with public safety, privacy, or security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that could be caused by the misuse of this information. In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may be appropriate to issue both a publicly available report with the sensitive information excluded and a limited use report. The auditors may consult with legal counsel regarding any requirements or other	7.66	Additional circumstances associated with public safety, privacy, or security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that misuse of this information could cause . In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may be appropriate to issue both a publicly available report with the sensitive information excluded and a limited use report. The auditors may consult with legal counsel regarding any requirements or other circumstances that may necessitate omitting certain information.

	circumstances that may necessitate the omission of certain information.		
5.42	Considering the broad public interest in the program or activity under review assists auditors when deciding whether to exclude certain information from publicly available reports. When circumstances call for omission of certain information, auditors should evaluate whether this omission could distort the examination engagement results or conceal improper or illegal practices.	7.67	Considering the broad public interest in the program or activity under examination assists auditors when deciding whether to exclude certain information from publicly available reports.
		7.62	When circumstances call for omission of certain information, auditors should evaluate whether the omission could distort the examination engagement results or conceal improper or illegal practices and revise the report language as necessary to avoid report users drawing inappropriate conclusions from the information presented.
5.43	When audit organizations are subject to public records laws, auditors should determine whether public records laws could impact the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. For example, the auditors may communicate general information in a written report and communicate detailed information orally. The auditors may consult with legal counsel regarding applicable public records laws.	7.63	When audit organizations are subject to public records laws, auditors should determine whether public records laws could affect the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. Auditors use judgment to determine the appropriate means to communicate the omitted information to management and those charged with governance considering, among other things, whether public records laws could affect the availability of classified or limited use reports.
		7.68	In cases described in paragraph 7.63, the auditors may communicate general information

			in a written report and communicate detailed information orally. The auditors may consult with legal counsel regarding applicable public records laws.
N/A	NEW	7.64	If the report refers to the omitted information, the reference may be general and not specific. If the omitted information is not necessary to meet the engagement objectives, the report need not refer to its omission.
5.44	<p>Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on report distribution.¹⁰² The following discussion outlines distribution for reports completed in accordance with GAGAS:</p> <p>a. Audit organizations in government entities should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on engagement findings and recommendations, and to others authorized to receive such reports.</p> <p>b. Internal audit organizations in government entities may also follow the Institute of Internal Auditors (IIA) International Standards</p>	7.69	<p>Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. Auditors should document any limitation on report distribution.</p> <p>a. An audit organization in a government entity should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the examination engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on engagement findings and recommendations and to others authorized to receive such reports.</p> <p>b. A public accounting firm contracted to conduct an examination engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with</p>

	<p>for the Professional Practice of Internal Auditing.¹⁰³ In accordance with GAGAS and IIA standards, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should: (1) assess the potential risk to the organization, (2) consult with senior management or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report.</p> <p>c. Public accounting firms contracted to perform an examination engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>		<p>the party contracting for the examination engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>
<p>5.45</p>	<p>Due to the objectives and public accountability of GAGAS examination engagements, additional considerations for examination engagements completed in accordance with GAGAS may apply. These considerations relate to</p>		

	<p>a. Materiality in GAGAS examination engagements, and</p> <p>b. Early communication of deficiencies.¹⁰⁴</p>		
	<p>¹⁰⁴See paragraphs 5.46 and 5.47 for additional discussion of paragraph 5.45 a-b.</p>		
5.46	<p>The AICPA standards require that one of the factors to be considered when planning an attest engagement includes preliminary judgments about attestation risk and materiality for attest purposes.¹⁰⁵ Additional considerations may apply to GAGAS examination engagements of government entities or entities that receive government awards. For example, in engagements performed in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels as compared with the materiality levels used in non-GAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.</p>	7.06	<p>The AICPA standards applicable to examinations require the auditors to apply the concept of materiality appropriately in planning and performing the examination. Additional considerations may apply to GAGAS engagements that concern government entities or entities that receive government awards. For example, for engagements conducted in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels than those used in non- GAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.</p>
	<p>¹⁰⁵See AT Section 101.45b and 101.67, Attest Engagements.</p>		
5.47	<p>For some matters, early communication to those charged with governance or management may be important because of the relative significance and the urgency for corrective follow-up action.¹⁰⁶ Further, when a control deficiency results in noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse,</p>	7.11	<p>For some matters, early communication to those charged with governance or management may be important because of the relative significance and the urgency for corrective follow-up action. Further, early communication is important to allow management to take prompt corrective action to prevent further occurrences when a control deficiency results in identified or</p>

	early communication is important to allow management to take prompt corrective action to prevent further noncompliance . When a deficiency is communicated early, the reporting requirements in paragraph 5.20 still apply.		suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements or identified or suspected fraud . When a deficiency is communicated early, the reporting requirements and application guidance in paragraphs 7.39 through 7.47 still apply.
	¹⁰⁶ See AT Section 501.103, <i>An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements</i> .		
5.48	GAGAS establishes a field work requirement for review engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with this additional requirement, along with the relevant AICPA standards for review engagements , when citing GAGAS in their review engagement reports. The additional requirement relates to communicating significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that come to the auditors' attention during a review engagement.	7.70	GAGAS establishes requirements for review engagements in addition to the requirements for reviews contained in the AICPA's SSAEs . Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements , when citing GAGAS in their review engagement reports.
5.49	If, on the basis of conducting the procedures necessary to perform a review, significant deficiencies; material weaknesses; instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse come to the auditors' attention that warrant the attention of those charged with governance, GAGAS requires that auditors should communicate such matters to audited entity officials. When		

	<p>auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment. Additionally, auditors should determine whether the existence of such matters affects the auditors' ability to conduct or report on the review.</p>		
5.50	<p>GAGAS establishes reporting requirements for review engagements in addition to the requirements contained in the AICPA standards.¹⁰⁷ Auditors should comply with these additional requirements when citing GAGAS in their review engagement reports. The additional requirements relate to a. reporting auditors' compliance with GAGAS; and b. distributing reports.¹⁰⁸</p>		
	<p>¹⁰⁷See AICPA AT Section 101.63-101.83 and 101.88-101.90, Attest Engagements. ¹⁰⁸See paragraphs 5.51 and 5.52 for additional discussion of paragraph 5.50 a-b.</p>		
5.51	<p>When auditors comply with all applicable requirements for a review engagement conducted in accordance with GAGAS, they should include a statement in the review report that they performed the engagement in accordance with GAGAS.¹⁰⁹ Because GAGAS incorporates by reference the general standard on criteria, and the field</p>	<p>7.74</p> <p>7.75</p>	<p>When auditors comply with all applicable requirements for a review engagement conducted in accordance with GAGAS, they should include a statement in the review report that they conducted the engagement in accordance with GAGAS.⁵⁷</p>

	<p>work and reporting standards of the AICPA SSAEs, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of AICPA or other standards.¹¹⁰</p>		<p>Because GAGAS incorporates by reference the AICPA's attestation standards, GAGAS does not require auditors to cite compliance with the AICPA standards when they cite compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards setters.</p>
	<p>¹⁰⁹See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS. ¹¹⁰See AICPA AT Sections 101.89d, Attest Engagements.</p>		<p>⁵⁷See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.</p>
<p>5.52</p>	<p>Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. For GAGAS review engagements, if the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution. The following discussion outlines distribution for reports completed in accordance with GAGAS:</p> <p>a. Audit organizations in government entities should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who</p>	<p>7.77</p>	<p>Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. If the subject matter or the assertion involves material that is classified or contains confidential or sensitive information, auditors should limit report distribution. Auditors should document any limitation on report distribution.</p> <p>a. An audit organization in a government entity should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority and to others authorized to receive such reports.</p> <p>b. A public accounting firm contracted to conduct a review engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the</p>

	<p>have legal oversight authority, and to others authorized to receive such reports.</p> <p>b. Internal audit organizations in government entities may also follow the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing.¹¹¹ In accordance with GAGAS and IIA standards, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should: (1) assess the potential risk to the organization, (2) consult with senior management and/or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report.</p> <p>c. Public accounting firms contracted to perform a review engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>		<p>distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>
	<p>¹¹¹See paragraph 2.21 for additional discussion about using the IIA standards in conjunction with GAGAS and paragraph</p>		

	2.22 for additional discussion about citing compliance with another set of standards.		
5.53	Due to the objectives and public accountability of GAGAS review engagements, additional considerations for review engagements performed in accordance with GAGAS may apply. These considerations relate to a. establishing an understanding regarding services to be performed; and b. reporting on review engagements.112		
	¹¹² See paragraphs 5.54 through 5.57 for additional discussion of 5.53 a-b.		
5.54	The AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed for each attestation engagement. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party. The understanding includes the objectives of the engagement, responsibilities of entity management, responsibilities of auditors, and limitations of the engagement.113	7.03	The AICPA standards used in conjunction with GAGAS require auditors to establish an understanding with the audited entity regarding the services to be performed for each attestation engagement or review of financial statements. Such an understanding reduces the risk that either the auditors or the audited entity may misinterpret the needs or expectations of the other party. The understanding includes the objectives of the engagement, responsibilities of audited entity management, responsibilities of auditors, and limitations of the engagement.51
5.64	The AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed for each attestation engagement. Such an understanding reduces the risk that either the auditors (practitioner) or the audited entity may misinterpret the needs or expectations of the other party. The		

	<p>understanding includes the objectives of the engagement, responsibilities of entity management, responsibilities of auditors, and limitations of the engagement.</p>		
	<p>¹¹³See AT Section 101.46, Attest Engagements. ¹²³See AT Section 101.46, Attest Engagements, and AT Section 201.10, Agreed-Upon Procedures Engagements.</p>		<p>⁵¹See para. .08 of AT-C section 205, para. .09 of AT-C section 210, and para. .14 of AT-C section 215; and para. .11 of AR-C section 90 (AICPA, Professional Standards).</p>
<p>5.55</p>	<p>Auditors often perform GAGAS engagements under a contract with a party other than the officials of the audited entity or pursuant to a third-party request. In such cases, auditors may also find it appropriate to communicate information regarding the services to be performed to the individuals contracting for or requesting the engagement. Such an understanding can help auditors avoid any misunderstandings regarding the nature of the review engagement. For example, For example, review engagements only provide a moderate level of assurance expressed as a conclusion in the form of negative assurance, and, as a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAGAS engagements. Under such circumstances, for example, requesting parties may find that a different type of attestation engagement or a performance audit may provide the appropriate level of assurance to meet their needs.</p>	<p>7.04</p>	<p>Auditors often conduct GAGAS engagements under a contract with a party other than the officials of the audited entity or pursuant to a third-party request. In such cases, auditors may also find it appropriate to communicate information regarding the services to be performed to the individuals contracting for or requesting the engagement. Such an understanding can help auditors avoid any misunderstandings regarding the nature of the review or agreed-upon procedures engagement. For example, review engagements only provide limited assurance, and as a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAGAS engagements. Agreed-upon procedures engagements do not provide an opinion or conclusion, and as a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAGAS engagements. Consequently, requesting parties may find that a different type of attestation engagement or a performance</p>

<p>5.65</p>	<p>Auditors often perform GAGAS engagements under a contract with a party other than the officials of the audited entity or pursuant to a third-party request. In such cases, auditors may also find it appropriate to communicate information regarding the services to be performed to the individuals contracting for or requesting the engagement. Such an understanding can help auditors avoid any misunderstandings regarding the nature of the agreed-upon procedures engagement. For example, agreed-upon procedures engagements provide neither a high nor moderate level of assurance, and, as a result, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAGAS engagements. Under such circumstances, for example, requesting parties may find that a different type of attestation engagement or a performance audit may provide the appropriate level of assurance to meet their needs.</p>		<p>audit may provide the appropriate level of assurance to meet their needs.</p>
<p>5.56</p>	<p>The AICPA standards require that the auditors' review report be in the form of a conclusion expressed in the form of negative assurance.¹¹⁴</p>		
	<p>¹¹⁴See AICPA AT Section 101.68, Attest Engagements.</p>		
<p>5.57</p>	<p>Because reviews are substantially less in scope than audits and examination</p>	<p>7.76</p>	<p>Because review engagements are substantially less in scope than audits and examination</p>

	<p>engagements, it is important to include all required reporting elements contained in the SSAEs.¹¹⁵ For example, a required element of the review report is a statement that a review engagement is substantially less in scope than an examination, the objective of which is an expression of opinion on the subject matter, and accordingly, review reports express no such opinion. Including only those elements that the AICPA reporting standards for review engagements require or permit ensures that auditors comply with the AICPA standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the review engagement.</p>		<p>engagements, it is important to include all required reporting elements contained in the standards used in conjunction with GAGAS. For example, a required element of the review report under SSAEs is a statement that a review is substantially less in scope than an examination, the objective of which is to express an opinion on the subject matter, and accordingly, no such opinion is expressed.⁵⁸ Including only those elements that the reporting standards for review engagements require or permit helps ensure that auditors comply with the standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the review engagement.</p>
	<p>¹¹⁵See AT Section 101.89, Attest Engagements.</p>		<p>⁵⁸See para. .46(f)(iii) of AT-C section 210 (AICPA, Professional Standards).</p>
<p>5.58</p>	<p>GAGAS establishes a field work requirement for agreed-upon procedures engagements in addition to the requirements contained in the AICPA standards. Auditors should comply with this additional requirement, along with the relevant AICPA standards for agreed-upon procedures engagements, when citing GAGAS in their agreed-upon procedures engagement reports. The additional requirement relates to communicating significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that comes to the auditors' attention during an agreed-upon procedures engagement.</p>	<p>7.78</p>	<p>GAGAS establishes requirements for agreed-upon procedures engagements in addition to the requirements for agreed-upon procedures engagements contained in the AICPA's SSAEs. Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements, when citing GAGAS in their agreed-upon procedures engagement reports.</p>

<p>5.59</p>	<p>If, on the basis of conducting the procedures necessary to perform an agreed-upon procedures engagement,¹¹⁶ significant deficiencies, material weaknesses, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse come to the auditors' attention that warrant the attention of those charged with governance, GAGAS requires that auditors should communicate such matters to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment. Additionally, auditors should determine whether the existence of such matters affects the auditors' ability to conduct or report on the agreed-upon procedures engagement.</p>		
	<p>¹¹⁶See AICPA AT Section 201.03, Agreed-Upon Procedures Engagements.</p>		
<p>5.60</p>	<p>GAGAS establishes reporting requirements for agreed-upon procedures engagements in addition to the requirements contained in the AICPA standards.¹¹⁷ Auditors should comply with these additional requirements when citing GAGAS in their agreed-upon procedures engagement reports. The additional requirements relate to</p>		

	<p>a. reporting auditors' compliance with GAGAS; and</p> <p>b. distributing reports.¹¹⁸</p>		
	<p>¹¹⁷See AICPA AT Section 201.31-201.36, Agreed-Up Procedures Engagements.</p> <p>¹¹⁸See paragraphs 5.61 and 5.62 for additional discussion of paragraph 5.60 a-b.</p>		
5.61	<p>When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a statement in the agreed-upon procedures engagement report that they performed the engagement in accordance with GAGAS.¹¹⁹ Because GAGAS incorporates by reference the AICPA's general attestation standard on criteria, the field work and reporting attestation standards, and the corresponding SSAEs, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of AICPA or other standards.¹²⁰</p>	<p>7.82</p> <p>7.83</p>	<p>When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a statement in the agreed-upon procedures engagement report that they conducted the engagement in accordance with GAGAS.⁶⁰</p> <p>Because GAGAS incorporates by reference the AICPA's attestation standards, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards.</p>
	<p>¹¹⁹See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS.</p> <p>¹²⁰See AICPA AT Section 201.31 g, Agreed-Up Procedures Engagements.</p>		<p>⁶⁰See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.</p>
5.62	<p>Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. For GAGAS agreed-upon procedures engagements, if the subject</p>	7.85	<p>Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. If the subject matter or the assertion involves material that is classified or contains</p>

	<p>matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution. The following discussion outlines distribution for reports completed in accordance with GAGAS:</p> <p>a. Audit organizations in government entities should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority, and to others authorized to receive such reports.</p> <p>b. Internal audit organizations in government entities may also follow the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing.¹²¹ In accordance with GAGAS and IIA standards, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should: (1) assess the potential risk to the organization,(2) consult with senior</p>		<p>confidential or sensitive information, auditors should limit the report distribution. Auditors should document any limitation on report distribution.</p> <p>a. An audit organization in a government entity should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority and to others authorized to receive such reports.</p> <p>b. A public accounting firm contracted to conduct an agreed-upon procedures engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>
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	<p>management and/or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report.</p> <p>c. Public accounting firms contracted to perform an agreed-upon procedures engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>		
	<p>¹²¹See paragraph 2.21 for additional discussion about using the IIA standards in conjunction with GAGAS and paragraph 2.22 for additional discussion about citing compliance with another set of standards.</p>		
5.63	<p>Due to the objectives and public accountability of GAGAS agreed-upon procedures engagements, additional considerations for agreed-upon procedures engagements performed in accordance with GAGAS may apply. These considerations relate to a. establishing an understanding regarding services to be performed; and b. reporting on agreed-upon procedures engagements.¹²²</p>		
	<p>¹²²See paragraphs 5.64 through 5.67 for additional discussion of paragraph 5.63 a-b.</p>		
5.66	<p>The AICPA standards require that the auditors' report on agreed-upon procedures engagements be in the form of procedures</p>		

	and findings and specifies the required elements to be contained in the report. ¹²⁴		
	¹²⁴ See AICPA AT Section 201.31, Agreed-Upon Procedures Engagements.		
5.67	<p>Because GAGAS agreed-upon procedures engagements are substantially less in scope than audits and examination engagements, it is important not to deviate from the required reporting elements contained in the SSAEs. For example, a required element of the report on agreed-upon procedures is a statement that the auditors were not engaged to and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance and that if the auditors had performed additional procedures, other matters might have come to their attention that would have been reported.¹²⁵ Another required element is a statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.¹²⁶ Including only those elements that the AICPA reporting standards for agreed-upon procedure engagements require or permit ensures that auditors comply with the AICPA standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the agreed-upon procedures engagement.</p>	7.84	<p>Because agreed-upon procedures engagements are substantially less in scope than audits and examination engagements, it is important not to deviate from the required reporting elements contained in the attestation standards incorporated by reference in GAGAS, other than including the reference to GAGAS. For example, a required element of the report on agreed-upon procedures is a statement that the auditors were not engaged to and did not conduct an examination or a review of the subject matter, the objective of which would be the expression of an opinion or a conclusion, respectively, and that had the auditors performed additional procedures, other matters may have come to their attention that would have been reported.⁶¹ Another required element is a statement that the sufficiency of the procedures is solely the responsibility of the parties specified in the report and a disclaimer of responsibility for sufficiency of those procedures.⁶² Including only those elements that the AICPA reporting standards for agreed-upon procedures engagements require or permit helps ensure that auditors comply with the AICPA standards and that users of GAGAS reports understand the nature of the work performed and the results of the agreed-upon procedures engagement.</p>
	¹²⁵ See AT Section 201.31k, Agreed-Upon Procedures Engagements.		⁶¹ See para. .35(j) of AT-C section 215 (AICPA, Professional Standards).

	¹²⁶ See AT Section 201.31h and 201.11-201.14, Agreed-Upon Procedures Engagements.		⁶² See para. .35(g) of AT-C section 215 (AICPA, Professional Standards).
N/A	NEW	7.86	GAGAS establishes requirements for reviews of financial statements in addition to the requirements for reviews of financial statements contained in the AICPA’s AR-C section 90, Review of Financial Statements. ⁶³ Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements, when citing GAGAS in their review engagement reports.
			⁶³ AICPA, Professional Standards.
N/A	NEW	7.87	Auditors engaged to conduct reviews of financial statements in the United States who do not work for a government audit organization should be licensed CPAs, persons working for licensed certified public accounting firms, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.
N/A	NEW	7.88	Auditors engaged to conduct reviews of financial statements of entities operating outside of the United States who do not work for a government audit organization should meet the qualifications indicated in paragraph 7.87, have certifications that meet all applicable national and international standards and serve in their respective countries as the functional equivalent of CPAs in the United States, or work for nongovernment audit organizations that are the functional equivalent of licensed certified public accounting firms in the United States.

N/A	NEW	7.89	Auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include consideration of noncompliance with provisions of contracts and grant agreements. ⁶⁴
			⁶⁴ See para. .51 of AR-C section 90 (AICPA, Professional Standards).
N/A	NEW	7.90	When auditors comply with all applicable requirements for a review of financial statements conducted in accordance with GAGAS, they should include a statement in the report that they conducted the engagement in accordance with GAGAS. ⁶⁵
			⁶⁵ See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.
N/A	NEW	7.91	Because GAGAS incorporates by reference the AICPA's AR-C section 90, Review of Financial Statements, ⁶⁶ GAGAS does not require auditors to cite compliance with the AICPA standards when they cite compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards setters.
			⁶⁶ AICPA, <i>Professional Standards</i> .
N/A	NEW	7.92	Because reviews of financial statements are substantially less in scope than audits and examination engagements, it is important to include all required reporting elements contained in the standards used in conjunction with GAGAS. For example, a required reporting element of the review of financial statements under AR-C section 90, Review of Financial Statements, ⁶⁷ is to include a statement that a

			<p>review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole and that accordingly the accountant does not express such an opinion.⁶⁸ Including only those elements that the reporting standards for review of financial statements engagements require or permit helps ensure that auditors comply with the standards and that users of GAGAS reports have an understanding of the nature of the work performed and the results of the review engagement.</p>
			<p>⁶⁷AICPA, Professional Standards. ⁶⁸See para. .39(c)(vi) of AR-C section 90 (AICPA, Professional Standards).</p>
N/A	NEW	7.93	<p>Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. If the subject matter involves material that is classified or contains confidential or sensitive information, auditors should limit report distribution. Auditors should document any limitation on report distribution.</p> <p>a. An audit organization in a government entity should distribute reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority and to others authorized to receive such reports.</p>

			<p>b. A public accounting firm contracted to conduct a review of financial statements engagement in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the engagement about which officials or organizations will receive the report and the steps being taken to make the report available to the public.</p>
<p>6.01</p>	<p>This chapter contains field work requirements and guidance for performance audits conducted in accordance with generally accepted government auditing standards (GAGAS). The purpose of field work requirements is to establish an overall approach for auditors to apply in obtaining reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. The field work requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of reasonable assurance, significance, and audit risk form a framework for applying these requirements and are included throughout the discussion of performance audits.</p>	<p>8.01</p>	<p>This chapter contains fieldwork requirements and guidance for performance audits conducted in accordance with generally accepted government auditing standards (GAGAS). Fieldwork requirements establish an overall approach for auditors to apply in planning and performing an audit to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives. For performance audits conducted in accordance with GAGAS, the requirements and guidance in chapters 1 through 5 and chapter 9 also apply.</p> <p>8.02</p> <p>The fieldwork requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of evidence, significance, and audit risk form a framework for applying these</p>
<p>6.02</p>			

	For performance audits conducted in accordance with GAGAS, the requirements and guidance in chapters 1 through 3, 6, and 7 apply.		requirements and are included throughout the discussion of performance audits.
6.03	In performance audits that comply with GAGAS, auditors obtain reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives. ¹²⁷ Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives, and in evaluating whether sufficient, appropriate evidence has been obtained to address the audit objectives.	8.12 8.13	Obtaining sufficient, appropriate evidence provides auditors with a reasonable basis for findings and conclusions that are valid, accurate, appropriate, and complete with respect to the audit objectives. The sufficiency and appropriateness of evidence needed and tests of evidence are determined by the auditors based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives and in evaluating whether sufficient, appropriate evidence has been obtained to address the audit objectives.
	¹²⁷ See paragraphs 2.11 and A2.02 for additional discussion of performance audit objectives.		
N/A	NEW	8.14	In performance audits conducted in accordance with GAGAS, auditors are the party who measures or evaluates the subject matter of the engagement and who presents the resulting information as part of, or accompanying, the audit report. Therefore, GAGAS does not

			require auditors to obtain management assertions with respect to the subject matter when conducting a performance audit.
6.04	<p>The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. In the performance audit requirements, the term “significant” is comparable to the term “material” as used in the context of financial statement engagements.</p>	8.15	<p>The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the matter’s effect on the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements.</p>
6.05	<p>Audit risk is the possibility that the auditors’ findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional</p>	8.16	<p>Audit risk is the possibility that the auditors’ findings, conclusions, recommendations, or assurance may be improper or incomplete as a result of factors such as evidence that is not sufficient or appropriate, an inadequate audit process, or intentional omissions or misleading</p>

	<p>omissions or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors impacting audit risk include the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes to detect inconsistencies, significant errors, or fraud; and auditors' access to records. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding specialists, additional reviewers, and other resources to perform the audit; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.</p>		<p>information because of misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors affecting audit risk include the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes for preventing and detecting inconsistencies, significant errors, or fraud; and auditors' access to records. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding specialists, additional reviewers, and other resources to conduct the audit; changing the methodology to obtain additional evidence, higher-quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.</p>
<p>6.06</p>	<p>Auditors must adequately plan and document the planning of the work necessary to address the audit objectives.</p>	<p>8.03</p>	<p>Auditors must adequately plan the work necessary to address the audit objectives. Auditors must document the audit plan.</p>
<p>6.07</p>	<p>Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate¹²⁸ to support the auditors' findings and conclusions. This determination is a matter of professional judgment. In planning the audit,</p>	<p>8.04 8.05</p>	<p>Auditors must plan the audit to reduce audit risk to an acceptably low level. In planning the audit, auditors should assess significance and audit risk. Auditors should apply these assessments to establish the scope and methodology for addressing the audit</p>

	<p>auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed. In situations where the audit objectives are established by statute or legislative oversight, auditors may not have latitude to define or adjust the audit objectives or scope.</p>	<p>8.09</p>	<p>objectives. Planning is a continuous process throughout the audit.</p> <p>Auditors may need to refine or adjust the audit objectives, scope, and methodology as work is performed. However, in situations where the audit objectives are established by statute or legislative oversight, auditors may not have latitude to define or adjust the audit objectives or scope.</p>
	<p>¹²⁸See paragraphs 6.56 through 6.72 for a discussion about assessing the sufficiency and appropriateness of evidence.</p>		
<p>6.08</p> <p>A6.03</p>	<p>The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. The term “program” is used in GAGAS to include government entities, organizations, programs, activities, and functions.</p> <p>Audit objectives may pertain to describing the current status or condition of a program or process. For</p>	<p>8.08</p>	<p>The audit objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. Audit objectives may also pertain to the current status or condition of a program. The term program as used in GAGAS includes processes, projects, studies, policies, operations, activities, entities, and functions.</p>

	<p>this type of audit objective, criteria may also be represented by the assurance added by the auditor's</p> <p>(1) description of the status or condition, (2) valuation of whether the status or condition meets certain characteristics, or (3) evaluation of whether management's description is verifiable, accurate, or supported.</p>		
6.09	<p>Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.</p>	8.10	<p>Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.</p>
6.10	<p>The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level.</p>	8.11 8.06	<p>The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives.</p> <p>Auditors should design the methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives and to reduce audit risk to an acceptably low level.</p>

<p>6.11</p>	<p>Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:</p> <ul style="list-style-type: none"> a. the nature and profile of the programs and the needs of potential users of the audit report; b. internal control as it relates to the specific objectives and scope of the audit; c. information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives; d. provisions of laws, regulations, contracts, and grant agreements, and potential fraud, and abuse that are significant within the context of the audit objectives; e. ongoing investigations or legal proceedings within the context of the audit objectives; and f. the results of previous audits and attestation engagements that directly relate to the current audit objectives.¹²⁹ 		
	<p>¹²⁹See paragraphs 6.13 through 6.36 for additional discussion of 6.11 a-f.</p>		
<p>6.12</p>	<p>During planning, auditors should also</p> <ul style="list-style-type: none"> a. identify the potential criteria needed to evaluate matters subject to audit; b. identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance; c. evaluate whether to use the work of other auditors and specialists to address some of the audit objectives; 	<p>8.07</p>	<p>Auditors should identify and use suitable criteria based on the audit objectives.</p>

	<p>d. assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the audit;</p> <p>e. communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and</p> <p>f. prepare a written audit plan.¹³⁰</p>		
	<p>¹³⁰See paragraphs 6.37 through 6.52 for additional discussion of 6.12 a-f.</p>		
N/A	NEW	8.19	<p>For audit objectives that pertain to the current status or condition of a program, sufficient, appropriate evidence is gathered to provide reasonable assurance that the description of the current status or condition of a program is accurate and reliable and does not omit significant information relevant to the audit objectives. Information addressing the audit objectives is to be provided in an objective, understandable manner. The relative importance of each of the characteristics of the information to a particular engagement is a matter of professional judgment.</p>
6.13	<p>Auditors should obtain an understanding of the nature of the program or program component under audit and the potential use that will be made of the audit results or report as they plan a performance audit. The nature and profile of a program include</p> <p>a. visibility, sensitivity, and relevant risks associated with the program under audit;</p>	8.36	<p>Auditors should obtain an understanding of the nature of the program or program component under audit and the potential use that will be made of the audit results or report as they plan a performance audit. The nature and profile of a program include</p> <p>a. visibility, sensitivity, and relevant risks associated with the program under audit;</p>

	<p>b. age of the program or changes in its conditions;</p> <p>c. the size of the program in terms of total dollars, number of citizens affected, or other measures;</p> <p>d. level and extent of review or other forms of independent oversight;</p> <p>e. program’s strategic plan and objectives; and</p> <p>f. external factors or conditions that could directly affect the program.</p>		<p>b. age of the program or changes in its condition;</p> <p>c. the size of the program in terms of total dollars, number of citizens affected, or other measures;</p> <p>d. level and extent of review or other forms of independent oversight;</p> <p>e. the program’s strategic plan and objectives; and</p> <p>f. external factors or conditions that could directly affect the program.</p>
6.14	<p>One group of users of the auditors’ report is government officials who may have authorized or requested the audit. Other important users of the auditors’ report are the audited entity, those responsible for acting on the auditors’ recommendations, oversight organizations, and legislative bodies. Other potential users of the auditors’ report include government legislators or officials (other than those who may have authorized or requested the audit), the media, interest groups, and individual citizens. In addition to an interest in the program, potential users may have an ability to influence the conduct of the program. An awareness of these potential users’ interests and influence can help auditors judge whether possible findings could be significant to relevant users.</p>	8.37	<p>One group of users of the audit report is government officials or other parties who authorize or request audits. Other important users of the audit report are the audited entity, those responsible for acting on the auditors’ recommendations, oversight organizations, and legislative bodies. Other potential users of the audit report include legislators or government officials (other than those who authorized or requested the audit), the media, interest groups, and individual citizens. In addition to an interest in the program, potential users may have an ability to influence the conduct of the program. An awareness of these potential users’ interests and influence can help auditors judge whether possible findings could be significant to relevant users.</p>
6.15	<p>Obtaining an understanding of the program under audit helps auditors to assess the relevant risks associated with the program and the impact of the risks on the audit</p>	8.38	<p>Obtaining an understanding of the program under audit helps auditors to assess the relevant risks associated with the program and the effect of the risks on the audit objectives, scope, and</p>

	<p>objectives, scope, and methodology. The auditors' understanding may come from knowledge they already have about the program or knowledge they gain from inquiries, observations, and reviewing documents while planning the audit. The extent and breadth of those inquiries and observations will vary among audits based on the audit objectives, as will the need to understand individual aspects of the program, such as the following.</p> <p>a. Provisions of laws, regulations, contracts and grant agreements: Government programs are usually created by law and are subject to specific laws and regulations. Laws and regulations usually set forth what is to be done, who is to do it, the purpose to be achieved, the population to be served, and related funding guidelines or restrictions. Government programs may also be subject to contracts or grant agreements. Thus, understanding the laws and legislative history establishing a program and the provisions of any contracts or grant agreements is essential to understanding the program itself. Obtaining that understanding is also a necessary step in identifying the provisions of laws, regulations, contracts, or grant agreements that</p>	<p>methodology. The auditors' understanding may come from knowledge they already have about the program or knowledge they gain from inquiries, observations, and reviewing documents while planning the audit. The extent and breadth of those inquiries and observations will vary among audits based on the audit objectives, as will the need to understand individual aspects of the program, such as the following:</p> <p>a. Provisions of laws, regulations, contracts, and grant agreements: Government programs are usually created by law and are subject to specific laws and regulations. Laws and regulations usually set forth what is to be done, who is to do it, the purpose to be achieved, the population to be served, and related funding guidelines or restrictions. Government programs may also be subject to contracts or grant agreements. Thus, understanding the laws and legislative history establishing a program and the provisions of contracts or grant agreements is essential to understanding the program itself. Obtaining that understanding is also a necessary step in identifying the provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives.</p> <p>b. Purpose and goals: Purpose is the result or effect that is intended or desired from a</p>
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	<p>are significant within the context of the audit objectives.</p> <p>b. Purpose and goals: Purpose is the result or effect that is intended or desired from a program's operation. Legislatures usually establish the program's purpose when they provide authority for the program. Entity officials may provide more detailed information on the program's purpose to supplement the authorizing legislation. Entity officials are sometimes asked to set goals for program performance and operations, including both output and outcome goals. Auditors may use the stated program purpose and goals as criteria for assessing program performance or may develop additional criteria to use when assessing performance.</p> <p>c. Internal control: Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding</p>		<p>program's operation. Legislatures usually establish the program's purpose when they provide authority for the program. Audited entity officials may provide more detailed information on the program's purpose to supplement the authorizing legislation. Audited entity officials are sometimes asked to set goals for program performance and operations, including both output and outcome goals. Auditors may use the stated program purpose and goals as criteria for assessing program performance or may develop additional criteria to use when assessing performance.</p> <p>c. Internal control: Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.</p> <p>d. Inputs: Inputs are the amount of resources (in terms of, for example, money, material, or personnel) that are put into a program. These resources may</p>
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	<p>assets and in preventing and detecting errors; fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse.¹³¹</p> <p>d. Inputs: Inputs are the amount of resources (in terms of money, material, personnel, etc.) that are put into a program. These resources may come from within or outside the entity operating the program. Measures of inputs can have a number of dimensions, such as cost, timing, and quality. Examples of measures of inputs are dollars spent, employee-hours expended, and square feet of building space.</p> <p>e. Program operations: Program operations are the strategies, processes, and activities management uses to convert inputs into outputs. Program operations may be subject to internal control.</p> <p>f. Outputs: Outputs represent the quantity of goods or services produced by a program. For example, an output measure for a job training program could be the number of persons completing training, and an output measure for an aviation safety inspection program could be the number of safety inspections completed.</p>		<p>come from within or outside the entity operating the program. Measures of inputs can have a number of dimensions, such as cost, timing, and quality. Examples of measures of inputs are dollars spent, employee hours expended, and square feet of building space used.</p> <p>e. Program operations: Program operations are the strategies, processes, and activities management uses to convert inputs into outputs. Program operations may be subject to internal control.</p> <p>f. Outputs: Outputs represent the quantity of goods or services produced by a program. For example, an output measure for a job training program could be the number of persons completing training, and an output measure for an aviation safety inspection program could be the number of safety inspections completed.</p> <p>g. Outcomes: Outcomes are accomplishments or results of a program. For example, an outcome measure for a job training program could be the percentage of trained persons obtaining a job and still in the workplace after a specified period. An example of an outcome measure for an aviation safety inspection program could be the percentage reduction in safety problems found in subsequent inspections or the percentage of problems deemed</p>
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	<p>g. Outcomes: Outcomes are accomplishments or results of a program. For example, an outcome measure for a job training program could be the percentage of trained persons obtaining a job and still in the work place after a specified period of time. An example of an outcome measure for an aviation safety inspection program could be the percentage reduction in safety problems found in subsequent inspections or the percentage of problems deemed corrected in follow-up inspections. Such outcome measures show the progress made in achieving the stated program purpose of helping unemployable citizens obtain and retain jobs, and improving the safety of aviation operations. Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Auditors may use approaches drawn from other disciplines, such as program evaluation, to isolate the effects of the program from these other influences. Outcomes also include unexpected and/or unintentional effects of a program, both positive and negative.</p>		<p>corrected in follow-up inspections. Such outcome measures show the progress made in achieving the stated program purposes of helping unemployed citizens obtain and retain jobs and improving the safety of aviation operations, respectively. Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Auditors may use approaches drawn from other disciplines, such as program evaluation, to isolate the effects of the program from these other influences. Outcomes also include a program's unexpected or unintentional effects, both positive and negative.</p>
	<p>¹³¹See paragraphs 6.16 through 6.27 for guidance pertaining to internal control</p>		

N/A	NEW	8.39	Auditors should determine and document whether internal control is significant to the audit objectives. ⁶⁹
			⁶⁹ See fig.4 at the end of ch. 8 for a flowchart on consideration of internal control in a GAGAS performance audit.
N/A	NEW	8.40	If it is determined that internal control is significant to the audit objectives, auditors should obtain an understanding of such internal control.
N/A	NEW	8.41	<p>Consideration of internal control in a performance audit begins with determining the significance of internal control to the audit objectives and documenting that determination. Some factors that may be considered when determining the significance of internal control to the audit objectives include</p> <ul style="list-style-type: none"> a. the subject matter under audit, such as the program or program component under audit, including the audited entity’s objectives for the program and associated inherent risks; b. the nature of findings and conclusions expected to be reported, based on the needs and interests of audit report users; c. the three categories of entity objectives (operations, reporting, and compliance);⁷⁰ and d. the five components of internal control (control environment, risk assessment, control activities, information and communication, and monitoring) and the integration of the components.
			⁷⁰ The terminology used in this section is consistent with the definitions and concepts in the Committee of Sponsoring Organizations of the Treadway Commission’s

			Internal Control—Integrated Framework (COSO Framework) and Standards for Internal Control in the Federal Government (GAO-14-704G) (Green Book).
N/A	NEW	8.42	If internal control is significant to the audit objectives, auditors determine which of the five components of internal control and underlying principles are significant to the audit objectives, as all components of internal control are generally relevant, but not all components may be significant to the audit objectives. This determination can also identify whether specific controls are significant to the audit objectives. Determining which internal control components and principles and/or specific controls are significant to the audit objectives is a matter of professional judgment.
N/A	NEW	8.43	Determining the significance of internal control may be an iterative process. As discussed in paragraph 8.09, the audit objectives can evolve and become more refined throughout the audit. When this occurs, the significance of internal control is determined and documented for the new or revised objectives.
N/A	NEW	8.44	Determining the significance of internal control may be documented in formats such as narratives or tables. The documentation includes the conclusions on whether internal control is significant to the audit objectives, and if so, which components of internal control are significant to the audit objectives. The documentation may also include the factors considered and steps taken to perform the determination.

N/A	NEW	8.45	Determining the significance of internal control to the audit objectives affects the audit planning required in paragraphs 8.03 through 8.07. Specifically, it enables auditors to determine whether to assess internal control as part of the audit and, if they do, to identify criteria for the assessment and plan the appropriate scope, methodology, and extent of internal control assessments to perform.
6.16	Auditors should obtain an understanding of internal control ¹³² that is significant within the context of the audit objectives. For internal control that is significant within the context of the audit objectives, auditors should assess whether internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. Information systems controls are often an integral part of an entity's internal control. The effectiveness of significant internal controls is frequently dependent on the effectiveness of information systems controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls. ¹³³	8.49 8.50	If internal control is determined to be significant to the audit objectives, auditors should assess and document their assessment of the design, implementation, and/or operating effectiveness of such internal control to the extent necessary to address the audit objectives. The auditors' understanding of internal control provides a basis for determining the nature, timing, and extent of procedures for assessments of internal control, if such an assessment will be performed. Assessments of internal control in a performance audit are performed to the extent necessary to address the audit objectives. The levels of internal control assessment that may be performed based on the audit objectives are (1) assessing the design; (2) assessing the design and implementation; or (3) assessing the design, implementation, and operating effectiveness of controls that are significant to the audit objectives.
	¹³² See paragraphs A.03 and A.04 for additional discussion on internal control.		

	¹³³ See paragraphs 6.23 through 6.27 for additional discussion on evaluating the effectiveness of information systems controls.		
N/A	NEW	8.51	Assessments of internal control involve designing and performing procedures to obtain sufficient, appropriate evidence, as required in paragraphs 8.90 through 8.94, to support and document the auditors' findings and conclusions on design, implementation, and/or operating effectiveness of controls that are significant to the audit objectives. The controls being assessed are generally the key controls identified during the planning phase of the engagement, which may include controls at both the entity and transaction levels. Changes may be made to the initial determination of key controls based on additional information gathered during the course of fieldwork.
N/A	NEW	8.52	The design of internal control is assessed by determining whether controls individually and in combination are capable of achieving an objective and addressing the related risk. The implementation of internal control is assessed by determining if the control exists and has been placed into operation. The operating effectiveness of internal control is assessed by determining whether controls were applied at relevant times during the period under evaluation, the consistency with which they were applied, and by whom or by what means they were applied. A control cannot be effectively implemented if it was not effectively designed. A control cannot be operating effectively if it was not effectively designed and implemented.

<p>6.17</p>	<p>The effectiveness of internal control that is significant within the context of the audit objectives can affect audit risk. Consequently, auditors may determine that it is necessary to modify the nature, timing, or extent of the audit procedures based on the auditors' assessment of internal control and the results of internal control testing. For example, poorly controlled aspects of a program have a higher risk of failure, so auditors may choose to focus more efforts in these areas. Conversely, effective controls at the audited entity may enable the auditors to limit the extent and type of audit testing needed.</p>		
<p>6.18</p>	<p>Auditors may obtain an understanding of internal control through inquiries, observations, inspection of documents and records, review of other auditors' reports, or direct tests. The nature and extent of procedures auditors perform to obtain an understanding of internal control may vary among audits based on audit objectives, audit risk, known or potential internal control deficiencies, and the auditors' knowledge about internal control gained in prior audits.</p>	<p>8.46</p>	<p>The nature and extent of procedures auditors perform to obtain an understanding of internal control is a matter of professional judgment and may vary among audits based on audit objectives, audit risk, internal control deficiencies, and the auditors' knowledge about internal control gained in prior audits. The understanding of internal control builds on the understanding of the program required in paragraph 8.36. The auditors' understanding of internal control may be obtained through procedures such as inquiries, observations, inspection of documents and records, review of other audit reports, or direct tests.</p>
<p>N/A</p>	<p>NEW</p>	<p>8.47</p>	<p>Approaches for obtaining an understanding of internal control may vary and may include consideration of entity-level controls, transaction-level controls, or both. However,</p>

			<p>even when assessing only transaction-level controls, it may be beneficial to gain an understanding of entity-level controls that may affect transaction-level controls by obtaining a broad understanding of the five components of internal control at the entity level. This involves considering the relationships between the components, which work together in an integrated manner in an effective internal control system, and the principles of internal control that support each component. In addition to obtaining a broad understanding of internal control at the entity level, auditors may also obtain an understanding of internal control at the transaction level for the specific programs and processes under audit.</p>
<p>N/A</p>	<p>NEW</p>	<p>8.48</p>	<p>Obtaining an understanding of internal control assists auditors in identifying an audited entity's key controls relevant to the audit objectives. Identifying key controls involves considering the entity's objectives that are relevant to the audit and whether the entity has controls in place to achieve those objectives and address associated risks. Collectively, key controls are those controls necessary to achieve the entity's control objectives and provide reasonable assurance of achieving the entity's objectives. Key controls often have one or both of the following characteristics:</p> <ol style="list-style-type: none"> a. Their failure may significantly affect the achievement of the entity's objectives, yet not reasonably be detected in a timely manner by other controls.

			<p>b. Their operation may prevent or detect other control failures before they have an opportunity to become significant to the achievement of the entity's objectives.</p>
<p>6.19</p>	<p>The following discussion of the principal types of internal control objectives is intended to help auditors better understand internal controls and determine whether or to what extent they are significant to the audit objectives.</p> <p>a. Effectiveness and efficiency of program operations: Controls over program operations include policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency. Understanding these controls can help auditors understand the program operations that convert inputs to outputs and outcomes.</p> <p>b. Relevance and reliability of information: Controls over the relevance and reliability of information include policies and procedures that officials of the audited entity have implemented to provide themselves reasonable assurance that operational and financial information they use for decision making and reporting externally is relevant and reliable and fairly disclosed in reports. Understanding these controls can help auditors (1) assess the risk that the</p>		

	<p>information gathered by the entity may not be relevant or reliable and (2) design appropriate tests of the information considering the audit objectives.</p> <p>c. Compliance with applicable laws, regulations, contracts, and grant agreements: Controls over compliance include policies and procedures that the audited entity has implemented to provide reasonable assurance that program implementation is in accordance with provisions of laws, regulations, contracts, and grant agreements. Understanding the relevant controls concerning compliance with those laws, regulations, contracts or grant agreements that the auditors have determined are significant within the context of the audit objectives can help them assess the risk of noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse.</p>		
<p>6.20</p>	<p>A subset of these categories of internal control objectives is the safeguarding of assets and resources. Controls over the safeguarding of assets and resources include policies and procedures that the audited entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.</p>		
<p>6.21</p>	<p>In performance audits, a deficiency in internal control¹³⁴ exists when the design or operation of a control does not allow management or</p>	<p>8.53</p>	<p>During the assessment of each control, deficiencies in internal control may be identified. A deficiency in internal control exists when the</p>

	<p>employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.</p>		<p>design, implementation, or operation of a control does not allow management or personnel to achieve control objectives and address related risks.⁷¹ A deficiency in design exists when a necessary control is missing or is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a control is properly designed but not implemented correctly in the internal control system. A deficiency in operating effectiveness exists when a properly designed control does not operate as designed or the person performing the control does not have the necessary competence or authority to perform the control effectively.</p>
	<p>¹³⁴See paragraph A.05 for additional discussion of internal control deficiencies.</p>		<p>⁷¹See paras. 1.27g and 1.27k for definitions of control objective and entity objective.</p>
<p>N/A</p>	<p>NEW</p>	<p>8.54</p>	<p>Auditors should evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives.</p>
<p>N/A</p>	<p>NEW</p>	<p>8.55</p>	<p>Internal control deficiencies are evaluated for significance within the context of the audit objectives. Deficiencies are evaluated both on an individual basis and in the aggregate. Consideration is given to the correlation among deficiencies. This evaluation and the audit work performed form the basis of the auditors' determination whether, individually or in</p>

			combination, the deficiencies are significant within the context of the audit objectives. ⁷²
			⁷² See paras. 9.29 through 9.34 for a discussion of reporting on internal control.
N/A	NEW	8.56	<p>Determining whether deficiencies are significant within the context of the audit objectives involves evaluating the following factors:</p> <p>a. Magnitude of impact: Magnitude of impact refers to the likely effect that the deficiency could have on the entity achieving its objectives and is affected by factors such as the size, pace, and duration of the deficiency’s impact. A deficiency may be more significant to one objective than another.</p> <p>b. Likelihood of occurrence: Likelihood of occurrence refers to the possibility of a deficiency impacting an entity’s ability to achieve its objectives.</p> <p>c. Nature of the deficiency: The nature of the deficiency involves factors such as the degree of subjectivity involved with the deficiency and whether the deficiency arises from fraud or misconduct.</p>
N/A	NEW	8.57	<p>Internal control deficiencies are a type of finding, and the requirements related to developing the four elements of a finding in paragraph 8.116 apply. When determining the cause of internal control deficiencies, it may be helpful for auditors to perform an analysis to identify the root cause of the deficiencies. Identifying the root causes of internal control deficiencies may strengthen the quality of auditors’ recommendations for corrective actions.</p>

N/A	NEW	8.59	The effectiveness of significant internal controls frequently depends on the effectiveness of information systems controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.
N/A	NEW	8.61	Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions.
6.22	Internal auditing is an important part of overall governance, accountability, and internal control. A key role of many internal audit organizations is to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives. The auditor may determine that it is appropriate to use the work of the internal auditors in the auditor's assessment of the effectiveness of design or operation of internal controls that are significant within the context of the audit objectives. ¹³⁵	8.84	Internal auditing is an important part of overall governance, accountability, and internal control. A key role of many internal audit organizations is to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives. Auditors may determine that it is appropriate to use the work of the internal auditors in assessing the effectiveness of design or operation of internal controls that are significant within the context of the audit objectives.
	¹³⁵ See paragraphs 6.40 through 6.44 for standards and guidance for using the work of other auditors.		
6.23	Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. Information systems controls consist of those internal controls that	8.63	Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. Information systems controls consist of those internal controls that depend on

<p>are dependent on information systems processing and include general controls, application controls, and user controls.</p> <p>a. Information systems general controls (entitywide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity’s information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.</p> <p>b. Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and data management system controls.</p> <p>c. User controls are portions of controls that are performed by people interacting with information system controls. A user control is an information system control if its effectiveness depends on information systems processing or the reliability (accuracy, completeness, and validity) of</p>	<p>information systems processing and include general controls, application controls, and user controls.</p> <p>a. Information systems general controls (entity-wide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity’s information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.</p> <p>b. Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and the data management system.</p> <p>c. User controls are portions of controls that are performed by people interacting with information systems controls. A user control is an information systems control if its effectiveness depends on information systems processing or the reliability (accuracy, completeness, and validity) of information processed by information systems.</p>
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	Control Professionals, published by the Information Systems Audit and Control Association (ISACA).		
6.25	Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.	8.65	Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.
6.26	The evaluation of information systems controls may be done in conjunction with the auditors' consideration of internal control within the context of the audit objectives ¹³⁷ or as a separate audit objective or audit procedure, depending on the objectives of the audit. Depending on the significance of information systems controls to the audit objectives, the extent of audit procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of audit risk related to information systems controls are affected by the nature of the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.	8.66	The evaluation of information systems controls may be done in conjunction with the auditors' consideration of internal control within the context of the audit objectives or as a separate audit objective or audit procedure, depending on the audit's objectives. Depending on the significance of information systems controls to the audit objectives, the extent of audit procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of audit risk related to information systems controls are affected by the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.
	¹³⁷ See paragraphs 6.16 through 6.22 for additional discussion on internal control.		
6.27	Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit	8.67	The following factors may assist auditors in determining the significance of information system controls to the audit objectives:

	<p>findings and conclusions. The following factors may assist auditors in making this determination:</p> <p>a. The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems.</p> <p>b. The availability of evidence outside the information system to support the findings and conclusions: It may not be possible for auditors to obtain sufficient, appropriate evidence without evaluating the effectiveness of relevant information systems controls. For example, if information supporting the findings and conclusions is generated by information systems or its reliability is dependent on information systems controls, there may not be sufficient supporting or corroborating information or documentary evidence that is available other than that produced by the information systems.</p> <p>c. The relationship of information systems controls to data reliability: To obtain evidence about the reliability of computer-generated information, auditors may decide to evaluate the effectiveness of information systems controls as part of obtaining evidence about the reliability of the data. If the auditor concludes that information systems controls are effective, the auditor may reduce the extent of direct testing of data.</p>	<p>8.62</p>	<p>a. The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems.</p> <p>b. The availability of evidence outside the information system to support the findings and conclusions. It may not be possible for auditors to obtain sufficient, appropriate evidence without evaluating the effectiveness of relevant information systems controls. For example, if information supporting the findings and conclusions is generated by information systems or its reliability depends on information systems controls, there may not be sufficient supporting or corroborating information or documentary evidence available other than that produced by the information systems.</p> <p>c. The relationship of information systems controls to data reliability. To obtain evidence about the reliability of computer-generated information, auditors may decide to evaluate the effectiveness of information systems controls as part of obtaining evidence about the reliability of the data. If the auditors conclude that information systems controls are effective, they may reduce the direct testing of data.</p> <p>When evaluating information systems controls is an audit objective, auditors should test information systems controls to the extent necessary to address the audit objective.</p>
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	<p>d. Evaluating the effectiveness of information systems controls as an audit objective: When evaluating the effectiveness of information systems controls is directly a part of an audit objective, auditors should test information systems controls necessary to address the audit objectives. For example, the audit may involve the effectiveness of information systems controls related to certain systems, facilities, or organizations.</p>		
6.28	<p>Auditors should identify any provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with provisions of laws, regulations, contracts or grant agreements could occur.¹³⁸ Based on that risk assessment, the auditors should design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that are significant within the context of the audit objectives.</p>	8.68	<p>Auditors should identify any provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with provisions of laws, regulations, contracts, and grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives.</p>
	<p>¹³⁸See paragraphs A.11 through A.13 for additional discussion on the significance of provisions of laws, regulations, contracts, or grant agreements.</p>		
6.29	<p>The auditors' assessment of audit risk may be affected by such factors as the complexity or newness of the laws, regulations, contracts or grant agreements. The auditors' assessment of audit risk also may be affected by whether the entity has controls that are effective in preventing or detecting</p>	8.70	<p>The auditors' assessment of audit risk may be affected by such factors as the complexity or recent establishment of the laws, regulations, contracts, and grant agreements. The auditors' assessment of audit risk also may be affected by whether the audited entity has controls that are effective in preventing or detecting</p>

	<p>noncompliance with provisions of laws, regulations, contracts, or grant agreements. If auditors obtain sufficient, appropriate evidence of the effectiveness of these controls, they can reduce the extent of their tests of compliance.</p>		<p>noncompliance with provisions of laws, regulations, contracts, and grant agreements. If auditors obtain sufficient, appropriate evidence of the effectiveness of these controls, they can reduce their tests of compliance.</p>
<p>6.30</p>	<p>In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives.¹³⁹ Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility. Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions. For example, auditors may obtain information through discussion with officials of the audited entity or through other means to determine the susceptibility of the program to fraud, the status of internal controls the audited entity has established to prevent and detect fraud, or the risk that officials of the audited entity could override internal control.</p>	<p>8.71</p> <p>8.73</p> <p>8.74</p>	<p>Auditors should assess risks of fraud occurring that are significant within the context of the audit objectives. Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could increase the risk of fraud. Auditors should gather and assess information to identify the risk of fraud that is significant within the scope of the audit objectives or that could affect the findings and conclusions.</p> <p>Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.</p> <p>Auditors may obtain information through discussion with officials of the audited entity or through other means to determine the susceptibility of a program to fraud, the extent to which the audited entity has implemented leading practices to manage fraud risks, the status of internal controls the audited entity has established to prevent and detect fraud, or the</p>

	An attitude of professional skepticism in assessing these risks assists auditors in assessing which factors or risks could significantly affect the audit objectives.		risk that officials of the audited entity could override internal control. An attitude of professional skepticism in assessing the risk of fraud assists auditors in assessing which factors or risks could significantly affect the audit objectives.
	¹³⁹ See paragraph A.10 for examples of indicators of fraud risk.		
6.31	When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud. Assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit.	8.72	Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.
6.32	When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings. If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement, or refer the matter to other	8.76	If fraud that may have occurred is not significant within the context of the audit objectives, the auditors may perform additional audit work as a separate engagement or refer the matter to other parties with oversight responsibility or jurisdiction.

	parties with oversight responsibility or jurisdiction.		
6.33	Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. ¹⁴⁰ Abuse does not necessarily involve fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements.	8.122	Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.
	¹⁴⁰ See A.08 for additional examples of abuse.		
6.34	Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits. However, as part of a GAGAS audit, if auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations contracts, or grant agreements.	8.119	Given the concept of accountability for use of public resources and government authority, evaluating internal control in a government environment may also include considering internal control deficiencies that result in waste or abuse. Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in performance audits. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.
N/A	NEW	8.120	Waste is the act of using or expending resources carelessly, extravagantly, or to no

		8.28	Laws, regulations, or policies may require auditors to report indications of the following to law enforcement or investigatory authorities before performing additional audit procedures: certain types of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.
6.36	Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.	8.30	Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous engagements or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.
6.37	Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and	8.17	Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in

	<p>benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.¹⁴¹</p>		<p>the report. Suitable criteria are relevant, reliable, objective, and understandable and do not result in the omission of significant information, as applicable, within the context of the audit objectives. The relative importance of each of these characteristics to a particular engagement is a matter of professional judgment. In instances where laws, regulations, or policies prescribe the criteria to be used for the engagement, such criteria are presumed to be suitable in the absence of indications to the contrary.</p>
	¹⁴¹ See paragraph A6.02 for examples of criteria.		
6.38	<p>Auditors should identify potential sources of information that could be used as evidence. Auditors should determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and adequately plan audit work.</p>	8.77	<p>Auditors should identify potential sources of information that could be used as evidence. Auditors should determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and adequately plan audit work.</p>
6.39	<p>If auditors believe that it is likely that sufficient, appropriate evidence will not be available, they may revise the audit objectives or modify the scope and methodology and determine alternative procedures to obtain additional evidence or other forms of evidence to address the current audit objectives. Auditors should also evaluate whether the lack of sufficient, appropriate evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate</p>	8.79 8.78	<p>If auditors believe that it is likely that sufficient, appropriate evidence will not be available, they may revise the audit objectives or modify the scope and methodology and determine alternative procedures to obtain additional evidence or other forms of evidence to address the current audit objectives.</p> <p>Auditors should evaluate whether any lack of sufficient, appropriate evidence is caused by internal control deficiencies or other program weaknesses, and whether the lack of sufficient,</p>

	<p>reviewing the other auditors' report, audit plan, or audit documentation, and/or performing tests of the other auditors' work. The nature and extent of evidence needed will depend on the significance of the other auditors' work to the current audit objectives and the extent to which the auditors will use that work.¹⁴³</p>		<p>If auditors use the work of other auditors, they should perform procedures that provide a sufficient basis for using that work. Auditors should obtain evidence concerning the other auditors' qualifications and independence and should determine whether the scope, quality, and timing of the audit work performed by the other auditors can be relied on in the context of the current audit objectives.⁷³</p>
	<p>¹⁴³See paragraph 3.107 for additional discussion on using the work of other auditors and peer review reports.</p>		<p>⁷³See para. 5.80 for additional discussion on using the work of other auditors and peer review reports.</p>
6.42	<p>Some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist. Specialists to whom this section applies include, but are not limited to, actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, and information technology experts. If auditors intend to use the work of specialists, they should assess the professional qualifications and independence of the specialists.</p>	4.13	<p>Some engagements may necessitate the use of specialized techniques or methods that call for the skills of specialists. Specialists do not include individuals with special skill or knowledge related to specialized areas within the field of accounting or auditing, such as income taxation and information technology. Such individuals are considered auditors.</p>
N/A	NEW	4.14	<p>The competence and qualifications of specialists significantly affect whether their work will be adequate for the engagement team's purposes and will meet GAGAS requirements. Competence relates to the nature and level of expertise. Qualifications of specialists relate to their professional certifications, reputations, and previous work in the subject matter. Other relevant factors include the ability of specialists to exercise competence in the circumstances of</p>

			<p>the engagement and the effects that bias, conflict of interest, or the influence of others may have on the specialists' professional judgment.</p>
<p>6.43</p>	<p>Auditors' assessment of professional qualifications of the specialist involves the following:</p> <ul style="list-style-type: none"> a. the professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate; b. the reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance; c. the specialist's experience and previous work in the subject matter; and d. the auditors' prior experience in using the specialist's work. 	<p>4.15</p>	<p>Sources that may inform the auditors' assessment of the competence and professional qualifications of a specialist include the following:</p> <ul style="list-style-type: none"> a. the professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate; b. the reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance; c. the specialist's experience and previous work in the subject matter; d. the auditors' assessment of the specialist's knowledge and qualification based on prior experience in using the specialist's work; e. the specialist's knowledge of any technical performance standards or other professional or industry requirements in the specialist's field (for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation); f. the knowledge of the specialist with respect to relevant auditing standards; and g. the assessment of unexpected events, changes in conditions, or the evidence obtained from the results of engagement procedures that indicate it may be necessary to reconsider the

			initial evaluation of the competence and qualifications of a specialist as the engagement progresses.
6.44	Auditors' assessment of the independence of specialists who perform audit work includes identifying threats and applying any necessary safeguards in the same manner as they would for auditors performing work on those audits. ¹⁴⁴	8.86	The engagement team's assessment of the independence of specialists who perform audit work includes identifying threats and applying any necessary safeguards in the same manner as they would for auditors performing work on those audits. ⁷⁵
	¹⁴⁴ See paragraphs 3.02 through 3.26 for additional discussion related to independence and applying the conceptual framework approach to independence.		⁷⁵ See paras. 3.18 through 3.108 for requirements and guidance related to independence.
6.45	Audit management should assign sufficient staff and specialists with adequate collective professional competence to perform the audit. ¹⁴⁵ Staffing an audit includes, among other things: <ul style="list-style-type: none"> a. assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job, b. assigning a sufficient number of staff and supervisors to the audit, c. providing for on-the-job training of staff, and d. engaging specialists when necessary. 	8.31	Audit management should assign sufficient auditors with adequate collective professional competence, as described in paragraphs 4.02 through 4.15, to conduct the audit. Staffing an audit includes, among other things, <ul style="list-style-type: none"> a. assigning auditors with the collective knowledge, skills, and abilities appropriate for the audit; b. assigning a sufficient number of auditors to the audit; c. providing for on-the-job training of auditors; and d. engaging specialists when necessary.
	¹⁴⁵ See paragraphs 3.72 and 3.79 through 3.81 for additional discussion of using specialists in a GAGAS audit.		
6.46	If planning to use the work of a specialist, auditors should document the nature and scope of the work to be performed by the specialist, including	8.32	If planning to use the work of specialists, auditors should document the nature and scope of the work to be performed by the specialists, including

	<ul style="list-style-type: none"> a. the objectives and scope of the specialist’s work, b. the intended use of the specialist’s work to support the audit objectives, c. the specialist’s procedures and findings so they can be evaluated and related to other planned audit procedures, and d. the assumptions and methods used by the specialist. 		<ul style="list-style-type: none"> a. the objectives and scope of the specialists’ work, b. the intended use of the specialists’ work to support the audit objectives, c. the specialists’ procedures and findings so they can be evaluated and related to other planned audit procedures, and d. the assumptions and methods used by the specialists.
<p>6.47</p>	<p>Auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors’ ability to obtain sufficient, appropriate evidence to address the audit objectives, such as when the auditors plan to conduct unannounced cash counts or perform procedures related to indications of fraud. Auditors should communicate with the following parties, as applicable:</p> <ul style="list-style-type: none"> a. management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited; b. those charged with governance;¹⁴⁶ c. the individuals contracting for or requesting audit services, such as contracting officials or grantees; and d. the cognizant legislative committee, when auditors perform the audit pursuant to a law or regulation or they conduct the work for 	<p>8.20</p>	<p>Auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors’ ability to obtain sufficient, appropriate evidence to address the audit objectives. Auditors should communicate such information with the following parties, as applicable:</p> <ul style="list-style-type: none"> a. management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited; b. those charged with governance; c. the individuals contracting for or requesting audit services, such as contracting officials or grantees; and d. the cognizant legislative committee, when auditors conduct the audit pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.
		<p>8.24</p>	

	the legislative committee that has oversight of the audited entity.		Examples of communications regarding the objectives, scope, methodology, and timing that could impair the auditor's ability to obtain sufficient, appropriate evidence include situations in which the auditors plan to perform unannounced cash counts or perform procedures related to indications of fraud.
	¹⁴⁶ See paragraphs A1.05 through A1.07 for a discussion of the role of those charged with governance.		
6.48	In those situations where there is not a single individual or group that both oversees the strategic direction of the audited entity and the fulfillment of its accountability obligations or in other situations where the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications.	8.21	In situations where the parties required to receive communications, as described in paragraph 8.20, are not clearly evident, auditors should document the process followed and conclusions reached in identifying the appropriate individuals to receive the required communications
6.49	Determining the form, content, and frequency of the communication is a matter of professional judgment, although written communication is preferred. Auditors may use an engagement letter to communicate the information. Auditors should document this communication.	8.23	Determining the form, content, and frequency of the communication with management or those charged with governance is a matter of professional judgment, although written communication is preferred. Auditors may use an engagement letter to communicate key information early in the engagement.
		8.22	Auditors should retain any written communication resulting from paragraph 8.20 as audit documentation.
6.50	If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to	5.25	If an engagement is terminated before it is completed and an audit report is not issued, auditors should document the results of the work

<p>7.06</p>	<p>the date of termination and why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit, and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.</p> <p>If an audit is terminated before it is completed and an audit report is not issued, auditors should follow the guidance in paragraph 6.50.</p>	<p>5.35</p>	<p>to the date of termination and why the engagement was terminated.</p> <p>Determining whether and how to communicate the reason for terminating an engagement or changing the engagement objectives to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the engagement, and other appropriate officials will depend on the facts and circumstances and therefore is a matter of professional judgment.</p>
<p>6.51</p>	<p>Auditors must prepare a written audit plan for each audit. The form and content of the written audit plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.</p>	<p>8.33</p> <p>8.34</p>	<p>Auditors must prepare a written audit plan for each audit. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.</p> <p>The form and content of the written audit plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions.</p>
<p>6.52</p>	<p>A written audit plan provides an opportunity for audit organization management to supervise audit planning and to determine whether</p> <ul style="list-style-type: none"> a. the proposed audit objectives are likely to result in a useful report; b. the audit plan adequately addresses relevant risks; 	<p>8.35</p>	<p>A written audit plan provides an opportunity for audit organization management to supervise audit planning and to determine whether</p> <ul style="list-style-type: none"> a. the proposed audit objectives are likely to result in a useful report; b. the audit plan adequately addresses relevant risks;

	<p>c. the proposed audit scope and methodology are adequate to address the audit objectives;</p> <p>d. available evidence is likely to be sufficient and appropriate for purposes of the audit; and</p> <p>e. sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to perform the audit and to meet expected time frames for completing the work.</p>		<p>c. the proposed audit scope and methodology are adequate to address the audit objectives;</p> <p>d. available evidence is likely to be sufficient and appropriate for purposes of the audit; and</p> <p>e. sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to conduct the audit and to meet expected time frames for completing the work.</p>
6.53	Audit supervisors or those designated to supervise auditors must properly supervise audit staff.	8.87	Auditors must properly supervise audit staff.
6.54	Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training. ¹⁴⁷	8.88	Audit supervision involves providing sufficient guidance and direction to auditors assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training.
	¹⁴⁷ See paragraph 6.83c for the documentation requirement related to supervision.		
6.55	The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the staff .	8.89	The nature and extent of the auditors' supervision and the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the auditors .
6.56	Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.	8.90	Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for

			addressing the audit objectives and supporting their findings and conclusions.
6.57	<p>The concept of sufficient, appropriate evidence is integral to an audit. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives.¹⁴⁸ In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the sufficiency of evidence, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.</p>	8.91	<p>In assessing the appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable.</p> <p><i>See 8.102 for appropriateness and 8.99 and 8.92 for sufficiency</i></p>
	¹⁴⁸ See paragraph A6.05 for additional discussion of the appropriateness of evidence.		
6.58	<p>In assessing evidence, auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Audit objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives. For example, in establishing the appropriateness of evidence, auditors may test its reliability by obtaining supporting evidence, using statistical testing, or obtaining corroborating evidence. The</p>	8.95	<p>Audit objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives. The concepts of audit risk and significance assist auditors in evaluating the audit evidence. Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole. Interpreting, summarizing, or analyzing evidence is typically used in determining the sufficiency and appropriateness of evidence and in reporting the results of the audit work.</p>

<p>6.59</p>	<p>concepts of audit risk and significance assist auditors with evaluating the audit evidence.¹⁴⁹</p> <p>Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole. Interpreting, summarizing, or analyzing evidence is typically used in the process of determining the sufficiency and appropriateness of evidence and in reporting the results of the audit work. When appropriate, auditors may use statistical methods to analyze and interpret evidence to assess its sufficiency.</p>	<p>8.100</p>	<p>When appropriate, auditors may use statistical methods to analyze and interpret evidence to assess its sufficiency.</p>
	<p>¹⁴⁹See paragraphs 6.04 and 6.05 for a discussion of significance and audit risk.</p>		
<p>6.60</p>	<p>Appropriateness is the measure of the quality of evidence that encompasses the relevance, validity, and reliability of evidence used for addressing the audit objectives and supporting findings and conclusions.¹⁵⁰</p> <p>a. Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the issue being addressed.</p> <p>b. Validity refers to the extent to which evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which evidence represents what it is purported to represent.</p>	<p>8.102</p>	<p>Appropriateness is the measure of the quality of evidence that encompasses the relevance, validity, and reliability of evidence used for addressing the audit objectives and supporting findings and conclusions.</p> <p>a. Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the issue being addressed.</p> <p>b. Validity refers to the extent to which evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which evidence represents what it is purported to represent.</p> <p>c. Reliability refers to the consistency of results when information is measured or tested and</p>

	<p>c. Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.¹⁵¹</p>		<p>includes the concepts of being verifiable or supported. For example, in establishing the appropriateness of evidence, auditors may test its reliability by obtaining supporting evidence, using statistical testing, or obtaining corroborating evidence. d. Having a large volume of evidence does not compensate for a lack of relevance, validity, or reliability.</p>
	<p>¹⁵⁰See paragraph A6.05 for additional guidance regarding assessing the appropriateness of evidence in relation to the audit objectives. ¹⁵¹See paragraph 6.66 for a discussion of computer-processed information and guidance on data reliability.</p>		
<p>A6.04</p>	<p>In terms of its form and how it is collected, evidence may be categorized as physical, documentary, or testimonial. Physical evidence is obtained by auditors' direct inspection or observation of people, property, or events. Such evidence may be documented in summary memos, photographs, videos, drawings, charts, maps, or physical samples. Documentary evidence is obtained in the form of already existing information such as letters, contracts, accounting records, invoices, spreadsheets, database extracts, electronically stored information, and management information on performance. Testimonial evidence is obtained through inquiries, interviews, focus groups, public forums, or questionnaires. Auditors frequently use analytical processes including computations, comparisons, separation of information into components,</p>	<p>8.104</p>	<p>In terms of its form and how it is collected, evidence may be categorized as physical, documentary, or testimonial. Physical evidence is obtained by auditors' direct inspection or observation of people, property, or events. Such evidence may be documented in summary memos, photographs, videos, drawings, charts, maps, or physical samples. Documentary evidence is already existing information, such as letters, contracts, accounting records, invoices, spreadsheets, database extracts, electronically stored information, and management information on performance. Testimonial evidence is obtained through inquiries, interviews, focus groups, public forums, or questionnaires. Auditors frequently use analytical processes, including computations, comparisons, separation of information into components, and rational arguments, to analyze any evidence gathered to determine whether it</p>

<p>6.61</p>	<p>and rational arguments to analyze any evidence gathered to determine whether it is sufficient and appropriate.¹⁹¹ The strength and weakness of each form of evidence depends on the facts and circumstances associated with the evidence and professional judgment in the context of the audit objectives.</p> <p>There are different types and sources of evidence that auditors may use, depending on the audit objectives. Evidence may be obtained by observation, inquiry, or inspection. Each type of evidence has its own strengths and weaknesses.¹⁵² The following contrasts are useful in judging the appropriateness of evidence. However, these contrasts are not adequate in themselves to determine appropriateness. The nature and types of evidence to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk.</p> <p>a. Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.</p> <p>b. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.</p>	<p>is sufficient and appropriate. Evidence may be obtained by observation, inquiry, or inspection. Each type of evidence has its own strengths and weaknesses. The following contrasts are useful in judging the appropriateness of evidence. However, these contrasts are not adequate in themselves to determine appropriateness. The nature and types of evidence to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk.</p> <p>a. Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.⁷⁷</p> <p>b. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.</p> <p>c. Examination of original documents is generally more reliable than examination of copies.</p> <p>d. Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.</p> <p>e. Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about the area.</p>
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	<p>c. Examination of original documents is generally more reliable than examination of copies.</p> <p>d. Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.</p> <p>e. Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about the area.</p> <p>f. Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence obtained from management of the audited entity or others who have a direct interest in the audited entity.</p>		<p>f. Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence obtained from management of the audited entity or others who have a direct interest in the audited entity.</p>
	<p>¹⁹¹See paragraphs 6.67 and 6.60 for definitions of sufficient and appropriate.</p> <p>¹⁵²See paragraph A6.04 for additional guidance regarding the types of evidence.</p>		<p>⁷⁷See paras. 8.39 through 8.67 for a discussion of internal control.</p>
<p>6.62</p>	<p>Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.</p>	<p>8.94</p> <p>8.105</p>	<p>Auditors should evaluate the objectivity, credibility, and reliability of testimonial evidence.</p> <p>Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.</p>

<p>6.63</p>	<p>Surveys generally provide self-reported information about existing conditions or programs. Evaluation of the survey design and administration assists auditors in evaluating the objectivity, credibility, and reliability of the self-reported information.</p>	<p>8.106</p>	<p>Surveys generally provide self-reported information about existing conditions or programs. Evaluation of the survey design and administration assists auditors in evaluating the objectivity, credibility, and reliability of the self-reported information.</p>
<p>6.64</p>	<p>6.64 When sampling is used, the method of selection that is appropriate will depend on the audit objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence than that obtained from nonstatistical techniques. When a representative sample is not needed, a targeted selection may be effective if the auditors have isolated risk factors or other criteria to target the selection.</p>	<p>8.107</p>	<p>When sampling is used, the appropriate selection method will depend on the audit objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence than that obtained from nonstatistical techniques. When a representative sample is not needed, a targeted selection may be effective if the auditors have isolated risk factors or other criteria to target the selection.</p>
<p>6.65</p>	<p>When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. The auditor may find it necessary to perform testing of management's procedures to obtain assurance or perform direct testing of the information. The nature and extent of the auditors' procedures will depend on the significance of the information to the audit objectives and the nature of the information being used.</p>	<p>8.93</p> <p>8.96</p>	<p>When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information.</p> <p>When auditors use information that audited entity officials provided as part of their evidence, auditors may find it necessary to test management's procedures to obtain assurance, perform direct testing of the information, or obtain additional corroborating evidence. The nature, timing, and extent of the auditors' procedures will depend on the significance of the information to the audit objectives and the</p>

			nature of the information being used. Using a risk-based approach, auditors may consider additional procedures if they become aware of evidence that conflicts with that provided by management. In their overall assessment, auditors may document how they resolved situations involving conflicting evidence. ⁷⁶
			⁷⁶ See para. 8.105 for a discussion of the relationship between testimonial and documentary evidence.
N/A	NEW	8.97	Auditors may request that management provide written representations as to the accuracy and completeness of information provided.
6.66	Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the audited entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives. ¹⁵³ The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. ¹⁵⁴	8.98	The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness are affected by the effectiveness of the audited entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in the context of the audit objectives. The sufficiency and appropriateness of computer-processed information is assessed regardless of whether this information is provided to auditors or auditors independently extract it. Assessing the sufficiency and appropriateness of computer-processed information includes considering the completeness and accuracy of the data for the intended purposes.
	¹⁵⁴ Refer to additional guidance in Assessing the Reliability of Computer-Processed Data, GAO-09-680G (Washington, D.C.: July 2009).		

<p>6.67</p>	<p>Sufficiency is a measure of the quantity of evidence used for addressing the audit objectives and supporting findings and conclusions. Sufficiency also depends on the appropriateness of the evidence. In determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions.</p>	<p>8.99</p> <p>8.92</p>	<p>Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives.</p> <p>In determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions to the extent that would persuade a knowledgeable person that the findings are reasonable.</p>
<p>6.68</p>	<p>The following presumptions are useful in judging the sufficiency of evidence. The sufficiency of evidence required to support the auditors' findings and conclusions is a matter of the auditors' professional judgment.</p> <ol style="list-style-type: none"> a. The greater the audit risk, the greater the quantity and quality of evidence required. b. Stronger evidence may allow less evidence to be used. c. Having a large volume of audit evidence does not compensate for a lack of relevance, validity, or reliability. 	<p>8.101</p>	<p>The sufficiency of evidence required to support the auditors' findings and conclusions is a matter of the auditors' professional judgment. The following presumptions are useful in judging the sufficiency of evidence.</p> <ol style="list-style-type: none"> a. The greater the audit risk, the greater the quantity and quality of evidence required. b. Stronger evidence may allow less evidence to be used.
<p>6.69</p>	<p>Auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives. Professional judgments about the sufficiency and appropriateness of evidence are closely interrelated, as auditors interpret the results of audit testing and evaluate whether the nature and extent of the</p>	<p>8.108</p> <p>8.111</p>	<p>Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments performed to conclude on the validity and reliability of specific evidence.</p> <p>Professional judgments about the sufficiency and appropriateness of evidence are closely</p>

	evidence obtained is sufficient and appropriate. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.		interrelated, as auditors interpret the results of audit testing and evaluate whether the nature and extent of the evidence obtained is sufficient and appropriate.
6.70	Sufficiency and appropriateness of evidence are relative concepts, which may be thought of in terms of a continuum rather than as absolutes. Sufficiency and appropriateness are evaluated in the context of the related findings and conclusions. For example, even though the auditors may have some limitations or uncertainties about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence to support the findings and conclusions.	8.112	Sufficiency and appropriateness of evidence are relative concepts, which may be thought of as a continuum rather than as absolutes. Sufficiency and appropriateness are evaluated in the context of the related findings and conclusions. For example, even though the auditors may identify some limitations or uncertainties about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence to support the findings and conclusions.
6.71	When assessing the sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk. The steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the audit or report, and the audit objectives. a. Evidence is sufficient and appropriate when it provides a reasonable basis for	8.109 8.113	When assessing the overall sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions; available corroborating evidence; and the level of audit risk. If auditors conclude that evidence is not sufficient or appropriate, they should not use such evidence as support for findings and conclusions. The steps to assess evidence may depend on the nature of the evidence, how the evidence is

	<p>supporting the findings or conclusions within the context of the audit objectives.</p> <p>b. Evidence is not sufficient or not appropriate when (1) using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion, (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence, or (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. Auditors should not use such evidence as support for findings and conclusions.</p>		<p>used in the audit or report, and the audit objectives.</p> <p>a. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives.</p> <p>b. Evidence is not sufficient or appropriate when (1) using the evidence carries an unacceptably high risk that it could lead auditors to reach an incorrect or improper conclusion; (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence; or (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions.</p>
<p>6.72</p>	<p>Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Limitations also include errors identified by the auditors in their testing. When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures, as appropriate. Such procedures include</p> <p>a. seeking independent, corroborating evidence from other sources;</p> <p>b. redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence;</p>	<p>8.114</p> <p>8.110</p> <p>8.115</p>	<p>Evidence has limitations or uncertainties when its validity or reliability has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Limitations also include errors identified by the auditors in their testing.</p> <p>When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should perform additional procedures, as appropriate.</p> <p>Additional procedures that could address limitations or uncertainties in evidence that are significant to the audit findings and conclusions include</p>

	implementing legislative requirements, and not the related cause or effect. In this situation, developing the condition would address the audit objective and development of the other elements of a finding would not be necessary.		condition would address the audit objective, and developing the other elements of a finding would not be necessary.
N/A	NEW	8.117	Auditors should consider internal control deficiencies in their evaluation of identified findings when developing the cause element of the identified findings when internal control is significant to the audit objectives.
N/A	NEW for performance audits. Was in 4.10 and 5.11 for financial statements and attestations.	8.118	Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud.
6.74	The element of criteria is discussed in paragraph 6.37, and the other elements of a finding--condition, effect, and cause--are discussed in paragraphs 6.75 through 6.77.	8.124	Criteria: To develop findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. The term program includes processes, projects, studies, policies, operations, activities, entities, and functions. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report.
6.75	Condition: Condition is a situation that exists. The condition is determined and documented during the audit.	8.125	Condition: Condition is a situation that exists. The condition is determined and documented during the audit.

	<p>desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.¹⁵⁸</p>		<p>identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, effect is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.</p>
	<p>¹⁵⁸See paragraph A6.07 for additional discussion on effect.</p>		
<p>6.78</p>	<p>Auditors report deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. For some matters, early communication to those charged with governance or management may be important because of their relative significance and the urgency for corrective follow-up action. Further, when a control deficiency results in noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance. When a deficiency is communicated early, the reporting requirements in paragraph 7.18 through 7.23 still apply.</p>	<p>8.25</p>	<p>Communicating with those charged with governance or management may include communicating deficiencies in internal control; fraud; or noncompliance with provisions of laws, regulations, contracts, and grant agreements. Early communication of these matters may be important because of their relative significance and the urgency for corrective follow-up action. Further, early communication is important to allow management to take prompt corrective action to prevent further occurrences when a control deficiency results in noncompliance with provisions of laws, regulations, contracts, and grant agreements or fraud. When a deficiency is communicated early, the reporting requirements and application guidance in paragraphs 9.29 through 9.44 still apply.</p>
<p>6.79</p>	<p>Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit</p>	<p>8.132</p>	<p>Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit</p>

	<p>documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to conduct the performance audit. These competencies and skills include an understanding of (1) the performance audit processes, (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter associated with achieving the audit objectives, and (4) issues related to the audited entity's environment.</p>	<p>8.138</p>	<p>documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed; the evidence obtained; and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions.</p> <p>An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to conduct the performance audit. These competencies and skills include an understanding of (1) the performance audit processes, (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter associated with achieving the audit objectives, and (4) issues related to the audited entity's environment.</p>
<p>6.80</p>	<p>Auditors should prepare audit documentation that contains evidence that supports the findings, conclusions, and recommendations before they issue their report.</p>	<p>8.133</p>	<p>Auditors should prepare audit documentation that contains evidence that supports the findings, conclusions, and recommendations before they issue their report.</p>
<p>6.81</p>	<p>Auditors should design the form and content of audit documentation to meet the circumstances of the particular audit. The audit documentation constitutes the principal record of the work that the auditors have performed in accordance with standards and the conclusions that the auditors have</p>	<p>8.134</p>	<p>Auditors should design the form and content of audit documentation to meet the circumstances of the particular audit. The audit documentation constitutes the principal record of the work that the auditors have performed in accordance with standards and the conclusions that the auditors have reached. The quantity, type, and content of</p>

	reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment.		audit documentation are a matter of the auditors' professional judgment.
6.82	Audit documentation is an essential element of audit quality. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality.	8.137	Audit documentation is an essential element of audit quality. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to (1) provide the principal support for the audit report, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality.
6.83	Auditors should document ¹⁵⁹ the following: a. the objectives, scope, and methodology of the audit; b. the work performed and evidence obtained to support significant judgments and conclusions, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined, but copies of documents examined or detailed listings of information from those documents are not required); and c. supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.	8.135	Auditors should document the following: a. the objectives, scope, and methodology of the audit; b. the work performed and evidence obtained to support significant judgments and conclusions, as well as expectations in analytical procedures, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined, though copies of documents examined or detailed listings of information from those documents are not required); and c. supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.
	¹⁵⁹ See paragraphs 6.06, 6.46, 6.48, 6.49, 6.50, 6.69, 6.84, 7.19, 7.22, and 7.44 for additional documentation requirements regarding performance audits.		
6.84	When auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to	8.136	When auditors do not comply with applicable GAGAS requirements because of law, regulation, scope limitations, restrictions on

	<p>records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions. This applies to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard.¹⁶⁰</p>	<p>8.139</p>	<p>access to records, or other issues affecting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions.</p> <p>When documenting departures from the GAGAS requirements, the audit documentation requirements apply to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the requirements.</p>
	<p>¹⁶⁰See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS.</p>		
<p>6.85</p>	<p>Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to perform audits in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. Subject to applicable laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers to satisfy these objectives. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals, as well as audit documentation.</p>	<p>8.140</p> <p>8.141</p>	<p>Subject to applicable provisions of laws and regulations, auditors should make appropriate individuals and audit documentation available upon request and in a timely manner to other auditors or reviewers.</p> <p>Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to conduct audits in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals and to audit documentation.</p>

	the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials.		users' needs will influence the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials.
	¹⁶² See paragraph 7.43 for situations when audit organizations are subject to public records laws.		⁷⁹ See paras. 9.56 through 9.67 for a discussion of report distribution and reporting confidential or sensitive information.
7.05	The purposes of audit reports are to (1) communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, unless specifically limited; ¹⁶³ and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken.	9.08	The purposes of audit reports are to (1) clearly communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials and (2) facilitate follow-up to determine whether appropriate corrective actions have been taken.
	¹⁶³ See paragraph 7.40 for additional guidance on classified or limited use reports and paragraph 7.44b for distribution of reports for internal auditors.		
7.07	If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not	9.68	If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the entities requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the

	<p>supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.</p>		<p>report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional audit work necessary to either reissue the report, including any revised findings or conclusions, or repost the original report if the additional audit work does not result in a change in findings or conclusions.</p>
<p>7.08</p>	<p>Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted.</p>	<p>9.10</p>	<p>Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a summary of the views of responsible officials; and (4) if applicable, the nature of any confidential or sensitive information omitted.</p>
<p>7.09</p>	<p>Auditors should include in the report a description of the audit objectives and the scope and methodology used for addressing the audit objectives. Report users need this information to understand the purpose of the audit, the nature and extent of the audit work performed, the context and perspective regarding what is reported, and any significant limitations in audit objectives, scope, or methodology.</p>	<p>9.15</p>	<p>Report users need information regarding the audit objectives, scope, and methodology to understand the purpose of the audit; the nature and extent of the audit work performed; the context and perspective regarding what is reported; and any significant limitations in the audit objectives, scope, or methodology.</p>

7.10	<p>Audit objectives for performance audits may vary widely. Auditors should communicate audit objectives in the audit report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions. When audit objectives are limited but broader objectives could be inferred by users, auditors should state in the audit report that certain issues were outside the scope of the audit in order to avoid potential misunderstanding.</p>	9.11	<p>Auditors should communicate audit objectives in the audit report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions. In order to avoid potential misunderstanding, when audit objectives are limited but users could infer broader objectives, auditors should state in the audit report that certain issues were outside the scope of the audit.</p>
7.11	<p>Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials or excessive delays of access to certain records or individuals.</p>	9.12	<p>Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that report users can reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of, or excessive delays in, access to certain records or individuals.</p>
7.12	<p>In describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.</p>	9.13	<p>In describing the work performed to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify entities, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.</p>

	objectives. However , the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.		and oversight officials of the audited entity in understanding the need for taking corrective action.
	¹⁶⁴ See paragraphs 6.73 through 6.77 for additional discussion on developing the elements of a finding.		
7.15	Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. As discussed in paragraphs 6.69 through 6.72 , even though the auditors may have some uncertainty about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence given the findings and conclusions. Auditors should describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope, and methodology. Additionally, this description provides report users with a clear understanding regarding how much responsibility the auditors are taking for the information.	9.20 9.25	Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. Auditors should describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope, and methodology. As discussed in paragraphs 8.108 through 8.115 , even though the auditors may have some uncertainty about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence given the findings and conclusions. Describing limitations of how much responsibility the auditors are taking for the information.
7.16	Auditors should place their findings in perspective by describing the nature and	9.21	Auditors should place their findings in perspective by describing the nature and extent

	<p>extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.</p>		<p>of the issues being reported and the extent of the work performed that resulted in the findings. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.</p>
<p>7.17</p>	<p>Auditors may provide background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed. Appropriate background information may include information on how programs and operations work; the significance of programs and operations (e.g., dollars, impact, purposes, and past audit work, if relevant); a description of the audited entity's responsibilities; and explanation of terms, organizational structure, and the statutory basis for the program and operations. When reporting on the results of their work, auditors should disclose significant facts relevant to the objectives of their work and known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.</p>	<p>9.22</p> <p>9.26</p>	<p>When reporting on the results of their work, auditors should disclose significant facts relevant to the objectives of their work and known to them that if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.</p> <p>Auditors may provide background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed. Appropriate background information may include information on how programs and operations work; the significance of programs and operations (e.g., dollars, effect, purposes, and past audit work, if relevant); a description of the audited entity's responsibilities; and explanation of terms, organizational structure, and the statutory basis for the program and operations.</p>
<p>7.18</p>	<p>Auditors should also report deficiencies in internal control, instances of fraud,</p>		

	noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that have occurred or are likely to have occurred and are significant within the context of the audit objectives.		
7.19	<p>Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.¹⁶⁵ When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report. Determining whether or how to communicate to officials of the audited entity deficiencies that are inconsequential within the context of the audit objectives is a matter of professional judgment.</p>	<p>9.29</p> <p>9.31</p>	<p>When internal control is significant within the context of the audit objectives, auditors should include in the audit report (1) the scope of their work on internal control, and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.</p> <p>When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. If the written communication is separate from the audit report, auditors should refer to that written communication in the audit report.</p>
	¹⁶⁵ See paragraph 6.21 for a discussion of internal control deficiencies in performance audits and paragraph A.06 for examples of deficiencies in internal control.		
N/A	NEW	9.30	If some but not all internal control components are significant to the audit objectives, the auditors should identify as part of the scope those internal control components and

			underlying principles that are significant to the audit objectives.
N/A	NEW	9.32	Control components and underlying principles that are not considered significant to the audit objectives may be identified in the scope if, in the auditors' professional judgment, doing so is necessary to preclude a misunderstanding of the breadth of the conclusions of the audit report and to clarify that control effectiveness has not been evaluated as a whole. Auditors may also identify and describe the five components of internal control so that report users understand the scope of the work within the context of the entity's internal control system.
N/A	NEW	9.33	An internal control system is effective if the five components of internal control are effectively designed, implemented, and operating, and are operating together in an integrated manner. The principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system. If a principle is not applied effectively, then the respective component cannot be effective. If a principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective.
N/A	NEW	9.34	When auditors detect deficiencies in internal control that do not warrant the attention of those charged with governance, determining whether and how to communicate such deficiencies to

			audited entity officials is a matter of professional judgment.
7.20	In a performance audit, auditors may conclude that identified deficiencies in internal control that are significant within the context of the audit objectives are the cause of deficient performance of the program or operations being audited. In reporting this type of finding, the internal control deficiency would be described as the cause.		
7.21	When auditors conclude, based on sufficient, appropriate evidence, that <i>fraud</i> , ¹⁶⁶ <i>noncompliance</i> with provisions of laws, regulations, contracts or grant agreements, or <i>abuse</i> ¹⁶⁷ either has occurred or is likely to have occurred which is significant within the context of the audit objectives, they should report the matter as a finding. Whether a particular act is, in fact, <i>fraud</i> or <i>noncompliance</i> with provisions of laws, regulations, contracts or grant agreements may have to await final determination by a court of law or other adjudicative body.	<p>9.35</p> <p>9.40</p> <p>9.37</p> <p>9.42</p>	<p>Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that noncompliance with provisions of laws, regulations, contracts, and grant agreements either has occurred or is likely to have occurred that is significant within the context of the audit objectives.</p> <p>Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that fraud either has occurred or is likely to have occurred that is significant to the audit objectives.</p> <p>Whether a particular act is, in fact, noncompliance with provisions of laws, regulations, contracts, and grant agreements may have to await final determination by a court of law or other adjudicative body.⁸⁰</p>

			Whether a particular act is, in fact, fraud may have to await final determination by a court of law or other adjudicative body. ⁸¹
	<p>¹⁶⁶See paragraph A.10 for examples of indicators of fraud risk.</p> <p>¹⁶⁷See paragraph A.08 for examples of abuse.</p>		<p>⁸⁰See paras. 8.27 through 8.29 for a discussion of investigations or legal proceedings.</p> <p>⁸¹See paras. 8.27 through 8.29 for a discussion of investigations or legal proceedings.</p>
7.22	<p>When auditors detect instances of <i>fraud</i>, <i>noncompliance</i> with provisions of laws, regulations, contracts, or grant agreements, or abuse that are not significant within the context of the audit objectives but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate to audited entity officials is a matter of professional judgment.</p>	<p>9.36</p> <p>9.38</p> <p>9.41</p> <p>9.43</p>	<p>Auditors should communicate findings in writing to audited entity officials when the auditors detect instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements that are not significant within the context of the audit objectives but warrant the attention of those charged with governance.</p> <p>When auditors detect instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.</p> <p>Auditors should communicate findings in writing to audited entity officials when the auditors detect instances of fraud that are not significant within the context of the audit objectives but warrant the attention of those charged with governance.</p> <p>When auditors detect instances of fraud that do not warrant the attention of those charged with</p>

			governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.
7.23	When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred , auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.	9.39 9.44	When noncompliance with provisions of laws, regulations, contracts, and grant agreements has occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record. When auditors conclude fraud has occurred or is likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.
7.24	Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.	9.45	Auditors should report known or likely noncompliance with provisions of laws, regulations, contracts, and grant agreements or fraud directly to parties outside the audited entity in the following two circumstances. a. When audited entity management fails to satisfy legal or regulatory requirements to report

	<p>a. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p> <p>b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is significant to the findings and conclusions and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.</p>		<p>such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.</p> <p>b. When audited entity management fails to take timely and appropriate steps to respond to noncompliance with provisions of laws, regulations, contracts, and grant agreements or instances of fraud that (1) are likely to have a significant effect on the subject matter and (2) involve funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the audited entity's failure to take timely and appropriate steps directly to the funding agency.</p>
<p>7.25</p>	<p>The reporting in paragraph 7.24 is in addition to any legal requirements for the auditor to</p>	<p>9.48</p>	<p>The reporting in paragraph 9.45 is in addition to any legal requirements to report such</p>

	<p>report such information directly to parties outside the audited entity. Auditors should comply with these requirements even if they have resigned or been dismissed from the audit prior to its completion. Internal audit organizations do not have a duty to report outside the audited entity unless required by law, rule, regulation, or policy.¹⁶⁸</p>	<p>9.46</p> <p>9.49</p>	<p>information directly to parties outside the audited entity.</p> <p>Auditors should comply with the requirements in paragraph 9.45 even if they have resigned or been dismissed from the audit prior to its completion.</p> <p>Internal audit organizations do not have a duty to report outside the audited entity unless required by law, rule, regulation, or policy.</p>
	<p>¹⁶⁸See paragraph 7.44b for reporting standards for internal audit organizations when reporting externally.</p>		
<p>7.26</p>	<p>Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraph 7.24 and 7.25.</p>	<p>9.47</p>	<p>Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate representations by audited entity management that it has reported audit findings in accordance with provisions of laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly, as discussed in paragraphs 9.45 and 9.46.</p>
<p>7.27</p>	<p>Auditors should report conclusions based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and</p>	<p>9.19</p> <p>9.27</p>	<p>Auditors should report conclusions based on the audit objectives and the audit findings.</p> <p>Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the persuasiveness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and convince a</p>

	convince the knowledgeable user of the report that action is necessary.		knowledgeable user of the report that action is necessary.
7.28	Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.	9.23	When feasible, auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.
7.29	Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.	9.28	Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties with the authority to act and when the recommended actions are specific, practical, cost- effective, and measurable
7.30	When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS. ¹⁶⁹ We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform	9.03	When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they conducted the audit in accordance with GAGAS: We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a

	the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.		reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
	¹⁶⁹ See paragraphs 2.24 and 2.25 for additional standards on citing compliance with GAGAS		
N/A	NEW	9.04	Audit organizations that meet the independence requirements for internal auditors, but not those for external audit organizations, should include in the GAGAS compliance statement, where applicable, a statement that they are independent per the GAGAS requirements for internal auditors.
7.31	When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. For performance audits, auditors should use a statement that includes either (1) the language in 7.30 , modified to indicate the requirements that were not followed or (2) language that the auditor did not follow GAGAS. ¹⁷⁰	9.05	When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. For performance audits, auditors should use a statement that includes either (1) the language in paragraph 9.03 , modified to indicate the requirements that were not followed, or (2) language indicating that the auditors did not follow GAGAS.
	¹⁷⁰ See paragraphs 2.24 and 2.25 for additional standards on citing compliance with GAGAS.		
7.32	Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions.	9.50	Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions

<p>7.36</p>	<p>Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user’s needs; auditors have worked closely with the responsible officials throughout the work and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with the findings, conclusions, and recommendations in the draft, or major controversies with regard to the issues discussed in the draft report.</p>	<p>9.55</p>	<p>Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user’s needs; auditors have worked closely with the responsible officials throughout the engagement, and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with findings, conclusions, or recommendations in the draft report, or major controversies with regard to the issues discussed in the draft report.</p>
<p>7.37</p>	<p>When the audited entity’s comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors’ recommendations, the auditors should evaluate the validity of the audited entity’s comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.</p>	<p>9.52</p>	<p>When the audited entity’s comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity’s comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported by sufficient, appropriate evidence.</p>
<p>7.38</p>	<p>If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in</p>	<p>9.53</p>	<p>If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report</p>

	the report that the audited entity did not provide comments.		that the audited entity did not provide comments.
7.39	If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information , auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.	9.61	If certain information is prohibited from public disclosure or is excluded from a report because of its confidential or sensitive nature, auditors should disclose in the report that certain information has been omitted and the circumstances that make the omission necessary.
7.40	Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.	9.65	Certain information may be classified or may otherwise be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified, or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.
7.41	Additional circumstances associated with public safety, privacy, or security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that could be caused by the misuse of this information . In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may	9.66	Additional circumstances associated with public safety, privacy, or security concerns could justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that misuse of this information could cause . In such circumstances, auditors may issue a limited use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may be appropriate to issue both a publicly available report with the sensitive

			In cases described in paragraph 9.63, auditors may communicate general information in a written report and communicate detailed information orally. Auditors may consult with legal counsel regarding applicable public records laws.
N/A	NEW	9.64	If the report refers to the omitted information, the reference may be general and not specific. If the omitted information is not necessary to meet the audit objectives, the report need not refer to its omission.
7.44	<p>Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on report distribution.¹⁷¹ The following discussion outlines distribution for reports completed in accordance with GAGAS:</p> <p>a. Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and</p>	<p>9.56</p> <p>9.58</p>	<p>Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. Auditors should document any limitation on report distribution. Auditors should make audit reports available to the public, unless distribution is specifically limited by the terms of the engagement, law, or regulation.</p> <p>If an internal audit organization in government entities follows the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as well as GAGAS, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should (1) assess the potential risk</p>

	with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.		receive the report and the steps being taken to make the report available to the public.
N/A	NEW	9.60	Making an audit report available to the public can involve auditors posting the audit report to their publicly accessible websites or verifying that the audited entity has posted the audit report to its publicly accessible website.
A.01	The following sections provide supplemental guidance for auditors and the audited entities to assist in the implementation of generally accepted government auditing standards (GAGAS). The guidance does not establish additional requirements but instead is intended to facilitate auditor implementation of GAGAS requirements in chapters 2 through 7. The supplemental guidance in the first section may be of assistance for all types of audits covered by GAGAS. Subsequent sections provide supplemental guidance for specific chapters of GAGAS, as indicated.		
A.02	Chapters 4 through 7 discuss the standards for financial audits, attestation engagements, and performance audits. The identification and communication of significant deficiencies and material weaknesses in internal control, fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse are important aspects of government		

	<p>making constructive recommendations for correction. Because deficiencies can result from a number of plausible factors or multiple causes, the recommendation can be more persuasive if auditors can clearly demonstrate and explain with evidence and reasoning the link between the deficiencies and the factor or factors they have identified as the cause or causes. Auditors may also identify deficiencies in program design or structure as the cause of deficient performance. Auditors may also identify deficiencies in internal control that are significant to the subject matter of the performance audit as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the “cause.” Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes. Alternatively, when the audit objectives include estimating the program’s effect on changes in physical, social, or economic conditions, auditors seek evidence of the extent to which the program itself is the “cause” of those changes.</p>		<p>complex and involve multiple factors, including fundamental, systemic root causes.</p>
			<p>⁷⁸The COSO Framework and the Green Book provide suitable and available criteria against which management may evaluate and report on the effectiveness of the entity’s internal control. The Green Book may be adopted by entities</p>

			beyond those federal entities for which it is legally required, such as state, local, and quasi-governmental entities, as well as other federal entities and not-for-profit organizations, as a framework for an internal control system.
A.04	In addition to the COSO framework, the publication, Standards for Internal Control in the Federal Government, 174 which incorporates the concepts developed by COSO, provides definitions and fundamental concepts pertaining to internal control at the federal level and may also be useful to auditors at other levels of government. The related Internal Control Management and Evaluation Tool, 175 based on the federal internal control standards, provides a systematic, organized, and structured approach to assessing the internal control structure.		
	¹⁷⁴ Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). ¹⁷⁵ Internal Control Management and Evaluation Tool, GAO-01-1008G (Washington, D.C.: August 2001).		
A.05	GAGAS contains requirements for reporting identified deficiencies in internal control. a. For financial audits, see paragraphs 4.19 through 4.24. b. For attestation engagements, see paragraphs 5.20 through 5.23. c. For		

	<p>performance audits, see paragraphs 7.19 through 7.20.</p> <p>c. For performance audits, see paragraphs 7.19 through 7.20.</p>		
<p>A.06</p>	<p>The following are examples of control deficiencies:</p> <p>a. Insufficient control consciousness within the organization. For example, the tone at the top and the control environment. Control deficiencies in other components of internal control could lead the auditor to conclude that weaknesses exist in the control environment.</p> <p>b. Ineffective oversight by those charged with governance of the entity’s financial reporting, performance reporting, or internal control, or an ineffective overall governance structure.</p> <p>c. Control systems that did not prevent, or detect and correct material misstatements so that it was necessary to restate previously issued financial statements or operational results. Control systems that did not prevent or detect material misstatements in performance or operational results so that it was later necessary to make significant corrections to those results.</p> <p>d. Control systems that did not prevent, or detect and correct material misstatements identified by the auditor. This includes misstatements involving estimation and judgment for which the auditor identifies</p>	<p>8.58</p>	<p>The following are examples of control deficiencies:</p> <p>a. Ineffective oversight by those charged with governance of the entity’s financial reporting, performance reporting, or internal control, or an ineffective overall governance structure.</p>

	<p>potential material adjustments and corrections of the recorded amounts.</p> <p>e. An ineffective internal audit function or risk assessment function at an entity for which such functions are important to the monitoring or risk assessment component of internal control, such as for a large or complex entity.</p> <p>f. Identification of fraud of any magnitude on the part of senior management.</p> <p>g. Failure by management or those charged with governance to assess the effect of a significant deficiency previously communicated to them and either to correct it or to conclude that it does not need to be corrected.</p> <p>h. Inadequate controls for the safeguarding of assets.</p> <p>i. Evidence of intentional override of internal control by those in authority to the detriment of the overall objectives of the system.</p> <p>j. Deficiencies in the design or operation of internal control that could fail to prevent, or detect and correct, fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse having a material</p>		<p>b. An ineffective internal audit function or risk assessment function at an entity for which such functions are important to the monitoring or risk assessment component of internal control, such as for a large or complex entity.</p> <p>c. Failure by management or those charged with governance to assess the effect of a deficiency previously communicated to them and either to correct it or to conclude that it does not need to be corrected.</p> <p>d. Inadequate controls for the safeguarding of assets.</p>
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	<p>effect on the financial statements or the audit objective.</p> <p>k. Inadequate design of information systems general, application, and user controls that prevent the information system from providing complete and accurate information consistent with financial, compliance, or performance reporting objectives or other current needs.</p> <p>l. Failure of an application control caused by a deficiency in the design or operation of an information systems general control.</p> <p>m. Employees or management who lack the qualifications and training to fulfill their assigned functions.</p>		<p>e. Inadequate design of information systems general, application, and user controls that prevents an information system from providing complete and accurate information consistent with financial, compliance, or performance reporting objectives or other current needs.</p> <p>f. Failure of an application control caused by a deficiency in the design or operation of an information system's general controls.</p> <p>g. Employees or management who lack the qualifications and training to fulfill their assigned functions.</p>
<p>A.07</p>	<p>GAGAS contains requirements for responding to indications of material abuse and reporting abuse that is material to the audit objectives. a. For financial audits, see paragraphs 4.07 and 4.08 and 4.25 through 4.27. b. For attestation engagements, see paragraphs 5.08 through 5.09 and 5.24 through 5.26. c. For performance audits, see paragraphs 6.33 and 6.34 and 7.21 through 7.23.</p>		
<p>A.08</p>	<p>The following are examples of abuse, depending on the facts and circumstances: a. Creating unneeded overtime.</p>	<p>6.24</p>	<p>The following are examples of abuse, depending on the facts and circumstances: a. Creating unneeded overtime. b. Requesting staff to perform personal errands or work tasks for a supervisor or manager.</p>

			<p>b. Requesting staff to perform personal errands or work tasks for a supervisor or manager.</p> <p>c. Misusing the official’s position for personal gain (including actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an official’s personal financial interests or those of an immediate or close family member; a general partner; an organization for which the official serves as an officer, director, trustee, or employee; or an organization with which the official is negotiating concerning future employment).</p>
<p>A.09</p>	<p>GAGAS contains requirements relating to evaluating fraud risk.</p> <p>a. For financial audits, see paragraphs 4.06 and 4.25 through 4.27.</p> <p>b. For attestation engagements, see paragraphs 5.07, 5.20, and 5.24 through 5.26.</p> <p>c. For performance audits, see paragraphs 6.30 through 6.32 and 7.21 through 7.23.</p>		
<p>A.10</p>	<p>In some circumstances, conditions such as the following might indicate a heightened risk of fraud:</p> <p>a. economic, programmatic, or entity operating conditions threaten the entity’s financial stability, viability, or budget;</p> <p>b. the nature of the entity’s operations provide opportunities to engage in fraud;</p> <p>c. management’s monitoring of compliance with policies, laws, and regulations is inadequate;</p>	<p>8.75</p>	<p>In some circumstances, conditions such as the following could indicate a heightened risk of fraud:</p> <p>a. economic, programmatic, or entity operating conditions that threaten the entity’s financial stability, viability, or budget;</p> <p>b. the nature of the entity’s operations provide opportunities to engage in fraud;</p> <p>c. management’s monitoring of compliance with laws, regulations, and policies is inadequate;</p>

	<p>d. the organizational structure is unstable or unnecessarily complex;</p> <p>e. communication and/or support for ethical standards by management is lacking;</p> <p>f. management is willing to accept unusually high levels of risk in making significant decisions;</p> <p>g. the entity has a history of impropriety, such as previous issues with fraud, waste, abuse, or questionable practices, or past audits or investigations with findings of questionable or criminal activity;</p> <p>h. operating policies and procedures have not been developed or are outdated;</p> <p>i. key documentation is lacking or does not exist;</p> <p>j. asset accountability or safeguarding procedures is lacking;</p> <p>k. improper payments;</p> <p>l. false or misleading information;</p> <p>m. a pattern of large procurements in any budget line with remaining funds at year end, in order to “use up all of the funds available;” and</p> <p>n. unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.</p>		<p>d. the organizational structure is unstable or unnecessarily complex;</p> <p>e. management communication or support for ethical standards is lacking;</p> <p>f. management is willing to accept unusually high levels of risk in making significant decisions;</p> <p>g. the entity has a history of impropriety, such as previous issues with fraud, questionable practices, or past audits or investigations with findings of questionable or criminal activity;</p> <p>h. operating policies and procedures have not been developed or are outdated;</p> <p>i. key documentation is lacking or does not exist;</p> <p>j. asset accountability or safeguarding procedures are lacking;</p> <p>k. a history of improper payments;</p> <p>l. evidence of false or misleading information; and</p> <p>m. evidence of unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.</p>
<p>A.11</p>	<p>GAGAS contains requirements for determining whether provisions of laws, regulations, contracts or grant agreements are significant within the context of the audit objectives.</p>		

<p>A.13</p>	<p>agreements are likely to be significant to the audit objectives.</p> <p>Auditors may consult with their own legal counsel to (1) determine those laws and regulations that are significant to the audit objectives, (2) design tests of compliance with laws and regulations, or (3) evaluate the results of those tests. Auditors also may consult with their own legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may consult with others, such as investigative staff, other audit organizations or government entities that provided professional services to the audited entity, or applicable law enforcement authorities, to obtain information on compliance matters.</p>	<p>on the objectives of the engagement. Auditors may consult with their legal counsel to (1) determine those laws and regulations that are significant to the examination objectives, (2) design tests of compliance with laws and regulations, and (3) evaluate the results of those tests. Auditors also may consult with their legal counsel when engagement objectives require testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the engagement, auditors may consult with others—such as investigative staff, other audit organizations or government entities that provided professional services to the audited entity, or applicable law enforcement authorities—to obtain information on compliance matters.</p> <p>8.69</p> <p>Government programs are subject to many provisions of laws, regulations, contracts, and grant agreements. At the same time, these provisions' significance within the context of the audit objectives varies widely, depending on the objectives of the audit. Auditors may consult with their own legal counsel to (1) determine those laws and regulations that are significant to the audit objectives, (2) design tests of compliance with provisions of laws and regulations, and (3) evaluate the results of those tests. Auditors also may consult with their own legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements. Depending on the</p>
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			<p>circumstances of the audit, auditors may consult with others, such as investigative staff, other audit organizations or government entities that provided professional services to the audited entity, or applicable law enforcement authorities, to obtain information on compliance matters.</p>
<p>A1.01</p>	<p>Chapter 1 discusses the use and application of GAGAS and the role of auditing in government accountability. Those charged with governance and management of audited organizations also have roles in government accountability. The discussion that follows is provided to assist auditors in understanding the roles of others in accountability. The following section also contains background information on the laws, regulations, or other authoritative sources that require the use of GAGAS. This information is provided to place GAGAS within the context of overall government accountability.</p>		
<p>A1.02</p>	<p>Laws, regulations, contracts, grant agreements, or policies frequently require the use of GAGAS.¹⁷⁶ The following are some of the laws, regulations, and or other authoritative sources that require the use of GAGAS:</p> <p>a. The Inspector General Act of 1978, as amended, 5 U.S.C. App. requires that the statutorily appointed federal inspectors general comply with GAGAS for audits of federal establishments, organizations, programs, activities, and functions. The act further states that the inspectors general shall</p>	<p>1.09</p>	<p>The following are some of the laws, regulations, and other authoritative sources that require the use of GAGAS:</p> <p>a. The Inspector General Act of 1978, as amended, (5 U.S.C. App.) requires that the federal inspectors general appointed under that act comply with GAGAS for audits of federal establishments, organizations, programs, activities, and functions. The act further states that the inspectors general shall take appropriate steps to assure that any work performed by nonfederal auditors complies with GAGAS.</p>

	<p>take appropriate steps to assure that any work performed by nonfederal auditors complies with GAGAS.</p> <p>b. The Chief Financial Officers Act of 1990 (Public Law 101-576), as expanded by the Government Management Reform Act of 1994 (Public Law 103-356), requires that GAGAS be followed in audits of executive branch departments' and agencies' financial statements. The Accountability of Tax Dollars Act of 2002 (Public Law 107-289) generally extends this requirement to most executive agencies not subject to the Chief Financial Officers Act unless they are exempted for a given year by the Office of Management and Budget (OMB).</p> <p>c. The Single Audit Act Amendments of 1996 (Public Law 104-156) require that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal awards. OMB Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, which provides the governmentwide guidelines and policies on performing audits to comply with the Single Audit Act, also requires the use of GAGAS.</p>		<p>b. The Chief Financial Officers Act of 1990 (Public Law 101-576), as expanded by the Government Management Reform Act of 1994 (Public Law 103-356), requires that GAGAS be followed in audits of major executive branch departments' and agencies' financial statements. The Accountability of Tax Dollars Act of 2002 (Public Law 107-289) generally extended this requirement to most executive agencies not subject to the Chief Financial Officers Act.</p> <p>c. The Single Audit Act Amendments of 1996 (Public Law 104-156) requires that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal awards. Subpart F of OMB's <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (2 CFR Part 200), which provides the government-wide guidelines and policies on conducting audits to comply with the Single Audit Act, reiterates the requirement to use GAGAS.</p>
	<p>¹⁷⁶ See paragraph 1.06 for additional discussion on the use of GAGAS</p>		
<p>A1.03</p>	<p>Other laws, regulations, or authoritative sources may require the use of GAGAS. For example, auditors at the state and local levels of government may be required by state and local laws and regulations to follow GAGAS.</p>	<p>1.10</p>	<p>Other laws, regulations, or authoritative sources may require the use of GAGAS. For example, auditors at the state and local government levels may be required by state and local laws and regulations to follow GAGAS. Also, auditors may</p>

	Also, auditors may be required by the terms of an agreement or contract to follow GAGAS. Auditors may also be required to follow GAGAS by federal audit guidelines pertaining to program requirements, such as those issued for Housing and Urban Development programs and Student Financial Aid programs. Being alert to such other laws, regulations, or authoritative sources may assist auditors in performing their work in accordance with the required standards.		be required by the terms of an agreement or contract to follow GAGAS. Auditors may also be required to follow GAGAS by federal audit guidelines pertaining to program requirements. Being aware of such other laws, regulations, or authoritative sources may assist auditors in performing their work in accordance with the required standards.
A1.04	Even if not required to do so, auditors may find it useful to follow GAGAS in performing audits of federal, state, and local government programs as well as audits of government awards administered by contractors, nonprofit entities, and other nongovernment entities. Many audit organizations not formally required to do so, both in the United States of America and in other countries, voluntarily follow GAGAS.	1.11	Even if not required to do so, auditors may find it useful to follow GAGAS in conducting engagements pertaining to federal, state, and local government programs as well as engagements pertaining to state and local government awards that contractors, nonprofit entities, and other nongovernmental entities administer. Though not formally required to do so, many audit organizations, both in the United States and in other countries, voluntarily follow GAGAS.
A1.05	During the course of GAGAS audits, auditors communicate with those charged with governance.177 a. For financial audits, see paragraphs 4.03 and 4.04. b. For attestation engagements, see paragraphs 5.04 and 5.05. c. For performance audits, see paragraphs 6.47 through 6.50.		
A1.06	Those charged with governance are responsible for overseeing the strategic direction of the entity and obligations related	1.04	“Those charged with governance” refers to the individuals responsible for overseeing the strategic direction of the entity and obligations

		<p>8.26</p>	<p>delegates authority and establishes accountability for management.</p> <p>Because the governance structures of government entities and organizations can vary widely, it may not always be clearly evident who is charged with key governance functions. The process for identifying those charged with governance includes evaluating the organizational structure for directing and controlling operations to achieve the audited entity's objectives and how the audited entity delegates authority and establishes accountability for management.</p>
<p>A1.08</p>	<p>Managers have fundamental responsibilities for carrying out government functions.178 Management of the audited entity is responsible for</p> <ul style="list-style-type: none"> a. using its financial, physical, and informational resources legally, effectively, efficiently, economically, ethically, and equitably to achieve the purposes for which the resources were furnished or the program was established; b. complying with applicable laws and regulations (including identifying the requirements with which the entity and the official are responsible for compliance); c. implementing systems designed to achieve compliance with applicable laws and regulations; d. establishing and maintaining effective internal control to help ensure that 		

	<p>appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported;</p> <p>e. providing appropriate reports to those who oversee their actions and to the public in order to demonstrate accountability for the resources and authority used to carry out government programs and the results of these programs;</p> <p>f. addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations;</p> <p>g. following sound procurement practices when contracting for audits, including ensuring procedures are in place for monitoring contract performance; and</p> <p>h. taking timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that auditors report</p>		
	<p>¹⁷⁸See paragraphs 1.01 and 1.02 for additional discussion of management and officials of government programs.</p>		
<p>A2.01</p>	<p>Examples of attestation engagements objectives¹⁷⁹ include</p> <p>a. prospective financial or performance information;</p> <p>b. management's discussion and analysis (MD&A) presentation;</p>	<p>1.19</p>	<p>The subject matter of an attestation engagement may take many forms, including the following:</p> <p>a. historical or prospective performance or condition, historical or prospective financial information, performance measurements, or backlog data;</p>

	<p>c. an entity’s internal control over financial reporting;</p> <p>d. the effectiveness of an entity’s internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;</p> <p>e. an entity’s compliance with requirements of specified laws, regulations, policies, contracts, or grants;</p> <p>f. the accuracy and reliability of reported performance measures;</p> <p>g. whether incurred final contract costs are supported with required evidence and in compliance with the contract terms;</p> <p>h. the allowability and reasonableness of proposed contract amounts that are based on detailed costs; and</p> <p>i. the quantity, condition, or valuation of inventory or assets.</p>		<p>b. physical characteristics, for example, narrative descriptions or square footage of facilities;</p> <p>c. historical events, for example, the price of a market basket of goods on a certain date;</p> <p>d. analyses, for example, break-even analyses;</p> <p>e. systems and processes, for example, internal control; and</p> <p>f. behavior, for example, corporate governance, compliance with laws and regulations, and human resource practices.</p>
	<p>¹⁷⁹ See paragraph 2.09 for additional discussion of attestation engagements.</p>		
<p>A2.02</p>	<p>Examples of program effectiveness and results audit objectives¹⁸⁰ include:</p> <p>a. assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;</p> <p>b. assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;</p> <p>c. analyzing the relative cost-effectiveness of a program or activity, focusing on combining cost information or other inputs with</p>	<p>1.23</p>	<p>Examples of program effectiveness and results audit objectives include</p> <p>a. assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;</p> <p>b. assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;</p> <p>c. analyzing the relative cost-effectiveness of a program or activity, focusing on combining cost information or other inputs with (1) information about outputs or the benefit</p>

	<p>information about outputs or the benefit provided or with outcomes or the results achieved;</p> <p>d. determining whether a program produced intended results or produced results that were not consistent with the program’s objectives;</p> <p>e. determining the current status or condition of program operations or progress in implementing legislative requirements;</p> <p>f. determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;</p> <p>g. assessing the extent to which programs duplicate, overlap, or conflict with other related programs;</p> <p>h. evaluating whether the entity is following sound procurement practices;</p> <p>i. assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;</p> <p>j. assessing the reliability, validity, or relevance of financial information related to the performance of a program;</p> <p>k. determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;</p> <p>l. determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;</p>	<p>provided or (2) outcomes or the results achieved;</p> <p>d. determining whether a program produced intended results or produced results that were not consistent with the program’s objectives;</p> <p>e. determining the current status or condition of program operations or progress in implementing legislative requirements;</p> <p>f. determining whether a program provides access to or distribution of public resources within the context of statutory parameters;</p> <p>g. assessing the extent to which programs duplicate, overlap, or conflict with other related programs;</p> <p>h. evaluating whether the entity is following sound procurement practices;</p> <p>i. assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results or economy and efficiency;</p> <p>j. assessing the reliability, validity, or relevance of financial information related to the performance of a program;</p> <p>k. determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;</p> <p>l. determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;</p> <p>m. determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;</p> <p>n. determining whether fees assessed cover costs;</p> <p>o. determining whether and how the program’s</p>
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	<p>m. determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;</p> <p>n. determining whether fees assessed cover costs;</p> <p>o. determining whether and how the program’s unit costs can be decreased or its productivity increased; and</p> <p>p. assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.</p>		<p>unit costs can be decreased or its productivity increased; and</p> <p>p. assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.</p>
	<p>¹⁸⁰ See paragraph 2.11a for additional discussion of program effectiveness and results audit objectives.</p>		
<p>A2.03</p>	<p>Examples of audit objectives related to internal control¹⁸¹ include an assessment of the extent to which internal control provides reasonable assurance about whether</p> <p>a. organizational missions, goals, and objectives are achieved effectively and efficiently;</p> <p>b. resources are used in compliance with laws, regulations, or other requirements;</p> <p>c. resources, including sensitive information accessed or stored outside the organization’s physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;</p> <p>d. management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;</p> <p>e. the integrity of information from computerized systems is achieved; and</p>	<p>1.24</p>	<p>Examples of internal control audit objectives include determining whether</p> <p>a. organizational missions, goals, and objectives are achieved effectively and efficiently;</p> <p>b. resources are used in compliance with laws, regulations, or other requirements;</p> <p>c. resources, including sensitive information accessed or stored outside the organization’s physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;</p> <p>d. management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;</p> <p>e. the integrity of information from computerized systems is achieved; and</p> <p>f. contingency planning for information systems provides essential backup to prevent</p>

	f. contingency planning for information systems provides essential back-up to prevent unwarranted disruption of the activities and functions that the systems support.		unwarranted disruption of the activities and functions that the systems support.
	¹⁸¹ See paragraph 2.11b for additional discussion of internal control audit objectives.		
A2.04	Compliance objectives ¹⁸² include determining whether a. the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with laws, regulations, provisions of contracts or grant agreements, or other requirements; b. government services and benefits are distributed or delivered to citizens based on the individual’s eligibility to obtain those services and benefits; c. incurred or proposed costs are in compliance with applicable laws, regulations, contracts, or grant agreements; and d. revenues received are in compliance with applicable laws, regulations, contracts or grant agreements.	1.25	Examples of compliance objectives include determining whether a. the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with provisions of laws, regulations, contracts, or grant agreements or other requirements; b. government services and benefits are distributed or delivered to citizens based on eligibility to obtain those services and benefits; c. incurred or proposed costs are in compliance with applicable laws, regulations, contracts, or grant agreements; and d. revenues received are in compliance with applicable laws, regulations, contracts, or grant agreements.
	¹⁸² See paragraph 2.11c for additional discussion of compliance audit objectives.		
A2.05	Examples of objectives pertaining to prospective analysis ¹⁸³ include providing conclusions based on a. current and projected trends and future potential impact on government programs and services;	1.26	Examples of prospective analysis objectives include providing conclusions based on a. current and projected trends and future potential impact on government programs and services and their implications for program or policy alternatives;

	<p>b. program or policy alternatives, including forecasting program outcomes under various assumptions; c. policy or legislative proposals, including advantages, disadvantages, and analysis of stakeholder views; d. prospective information prepared by management; e. budgets and forecasts that are based on (1) assumptions about expected future events and (2) management’s expected reaction to those future events; and f. management’s assumptions on which prospective information is based.</p>		<p>b. program or policy alternatives, including forecasting program outcomes under various assumptions; c. policy or legislative proposals, including advantages, disadvantages, and analysis of stakeholder views; d. prospective information prepared by management; e. budgets and forecasts that are based on (1) assumptions about expected future events and (2) stakeholders’ and management’s expected reaction to those future events; and f. management’s assumptions on which prospective information is based.</p>
	<p>¹⁸³ See paragraph 2.11d for additional discussion of prospective analysis audit objectives.</p>		
<p>A2.06</p>	<p>The determination of whether an unmodified or modified GAGAS compliance statement is appropriate is based on the consideration of the individual and aggregate effect of exceptions to GAGAS requirements.¹⁸⁴ Quantitative and qualitative factors that the auditor may consider include: a. the likelihood that the exception(s) will affect the perceptions of report users about the audit findings, conclusions, and recommendations; b. the magnitude of the effect of the exception(s) on the perceptions of report users about the audit findings, conclusions, and recommendations; c. the pervasiveness of the exception(s);</p>	<p>2.22</p>	<p>Determining whether an unmodified or modified GAGAS compliance statement is appropriate is based on the consideration of the individual and aggregate effect of the instances of noncompliance with GAGAS requirements. Factors that the auditor may consider include a. the pervasiveness of the instance(s) of noncompliance; b. the potential effect of the instance(s) of noncompliance on the sufficiency and appropriateness of evidence supporting the findings, conclusions, and recommendations; and c. whether report users might misunderstand the implications of a modified or unmodified GAGAS compliance statement.</p>

	<p>d. the potential effect of the exception(s) on the sufficiency and appropriateness of evidence supporting the audit findings, conclusions, and recommendations; and</p> <p>e. whether report users could be misled if the GAGAS compliance statement were not modified.</p>		
	<p>¹⁸⁴ See paragraphs 2.24 and 2.25 for additional discussion on citing compliance with GAGAS.</p>		
A3.01	<p>Chapter 3 discusses the general standards applicable to financial audits, attestation engagements, and performance audits in accordance with GAGAS. The following supplemental guidance is provided to assist auditors and audited entities in avoiding impairments to independence, establishing a system of quality control, and identifying peer review risk factors.</p>		
A3.02	<p>This list is intended to illustrate by example the types of circumstances that create threats to independence that an auditor might identify when applying the conceptual framework.¹⁸⁵ It does not include all circumstances that create threats to independence; these circumstances will be unique to the conditions under which each evaluation takes place.</p>		
	<p>¹⁸⁵ See paragraphs 3.07 through 3.26.</p>		
A3.03	<p>Examples of circumstances that create self-interest threats for an auditor include:</p> <p>a. A member of the audit team having a direct financial interest in the audited entity. This would not preclude auditors from</p>	3.38	<p>Examples of circumstances that create self-interest threats for an auditor follow:</p> <p>a. An audit organization having undue dependence on income from a particular audited entity.</p>

	<p>auditing pension plans that they participate in if (1) the auditor has no control over the investment strategy, benefits, or other management issues associated with the pension plan and (2) the auditor belongs to such pension plan as part of his/her employment with the audit organization, provided that the plan is normally offered to all employees in equivalent employment positions.</p> <p>b. An audit organization having undue dependence on income from a particular audited entity.</p> <p>c. A member of the audit team entering into employment negotiations with an audited entity.</p> <p>d. An auditor discovering a significant error when evaluating the results of a previous professional service performed by a member of the auditor’s audit organization.</p>		<p>b. A member of the audit team entering into employment negotiations with an audited entity.</p> <p>c. An audit organization discovering a significant error when evaluating the results of a previous professional service provided by the audit organization.</p> <p>d. A member of the audit team having a direct financial interest in the audited entity. However, this would not preclude auditors from auditing pension plans that they participate in if (1) the auditors have no control over the investment strategy, benefits, or other management issues associated with the pension plan and (2) the auditors belong to such pension plan as part of their employment with the audit organization or prior employment with the audited entity, provided that the plan is normally offered to all employees in equivalent employment positions.</p>
<p>A3.04</p>	<p>Examples of circumstances that create self-review threats for an auditor include:</p> <p>a. An audit organization issuing a report on the effectiveness of the operation of financial or performance management systems after designing or implementing the systems.</p> <p>b. An audit organization having prepared the original data used to generate records that are the subject matter of the audit.</p> <p>c. An audit organization performing a service for an audited entity that directly</p>	<p>3.39</p>	<p>Examples of circumstances that create self-review threats for an auditor follow:</p> <p>a. An audit organization issuing a report on the effectiveness of the operation of financial or performance management systems after designing or implementing the systems.</p> <p>b. An audit organization having prepared the original data used to generate records that are the subject matter of the engagement.</p> <p>c. An audit organization providing a service for an audited entity that directly affects the subject matter information of the engagement.</p>

	<p>affects the subject matter information of the audit.</p> <p>d. A member of the audit team being, or having recently been, employed by the audited entity in a position to exert significant influence over the subject matter of the audit.</p>		<p>d. A member of the engagement team being, or having recently been, employed by the audited entity in a position to exert significant influence over the subject matter of the engagement.</p>
A3.05	<p>Examples of circumstances that create bias threats for an auditor include:</p> <p>a. An auditor's having preconceptions about the objectives of a program under audit that are sufficiently strong to impact the auditor's objectivity.</p> <p>b. An auditor's having biases associated with political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, organization, or level of government that could impact the auditor's objectivity</p>	3.40	<p>Examples of circumstances that create bias threats for an auditor follow:</p> <p>a. A member of the engagement team having preconceptions about the objectives of a program under audit that are strong enough to affect the auditor's objectivity.</p> <p>b. A member of the engagement team having biases associated with political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, entity, or level of government that could affect the auditor's objectivity.</p>
A3.06	<p>Examples of circumstances that create familiarity threats for an auditor include:</p> <p>a. A member of the audit team having a close or immediate family member who is a principal or senior manager of the audited entity.</p> <p>b. A member of the audit team having a close or immediate family member who is an employee of the audited entity and is in a position to exert significant influence over the subject matter of the audit.</p> <p>c. A principal or employee of the audited entity in a position to exert significant influence over the subject matter of the audit having recently served on the audit team.</p>	3.41	<p>Examples of circumstances that create familiarity threats for an auditor follow:</p> <p>a. A member of the engagement team having a close or immediate family member who is a principal or senior manager of the audited entity.</p> <p>b. A member of the engagement team having a close or immediate family member who is an employee of the audited entity and is in a position to exert significant influence over the subject matter of the engagement.</p> <p>c. A principal or employee of the audited entity having recently served on the engagement team in a position to exert significant influence over the subject matter of the engagement.</p>

	<p>d. An auditor accepting gifts or preferential treatment from an audited entity, unless the value is trivial or inconsequential.</p> <p>e. Senior audit personnel having a long association with the audited entity.</p>		<p>d. An auditor accepting gifts or preferential treatment from an audited entity, unless the value is trivial or inconsequential.</p> <p>e. Senior audit personnel having a long association with the audited entity.</p>
<p>A3.07</p>	<p>Examples of circumstances that create undue influence threats for an auditor or audit organization include existence of:</p> <p>a. External interference or influence that could improperly limit or modify the scope of an audit or threaten to do so, including exerting pressure to inappropriately reduce the extent of work performed in order to reduce costs or fees.</p> <p>b. External interference with the selection or application of audit procedures or in the selection of transactions to be examined.</p> <p>c. Unreasonable restrictions on the time allowed to complete an audit or issue the report.</p> <p>d. External interference over the assignment, appointment, compensation, and promotion of audit personnel.</p> <p>e. Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities.</p> <p>f. Authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report.</p>	<p>3.42</p>	<p>Examples of circumstances that create undue influence threats for an auditor or audit organization include existence of the following:</p> <p>a. External interference or influence that could improperly limit or modify the scope of an engagement or threaten to do so, including exerting pressure to inappropriately reduce the extent of work performed in order to reduce costs or fees.</p> <p>b. External interference with the selection or application of engagement procedures or in the selection of transactions to be examined.</p> <p>c. Unreasonable restrictions on the time allowed to complete an engagement or issue the report.</p> <p>d. External interference over assignment, appointment, compensation, and promotion.</p> <p>e. Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities.</p> <p>f. Authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report.</p> <p>g. Threat of replacing the auditor or the audit organization based on a disagreement with the contents of an audit report, the auditors'</p>

	<p>g. Threat of replacing the auditors over a disagreement with the contents of an auditors' report, the auditors' conclusions, or the application of an accounting principle or other criteria.</p> <p>h. Influences that jeopardize the auditors' continued employment for reasons other than incompetence, misconduct, or the need for audits or attestation engagements.</p>		<p>conclusions, or the application of an accounting principle or other criteria.</p> <p>h. Influences that jeopardize the auditors' continued employment for reasons other than incompetence, misconduct, or the audited entity's need for GAGAS engagements.</p>
<p>A3.08</p>	<p>Examples of circumstances that create management participation threats for an auditor include:</p> <p>a. A member of the audit team being, or having recently been, a principal or senior manager of the audited entity.</p> <p>b. An audit organization principal or employee serving as a voting member of an entity's management committee or board of directors, making policy decisions that affect future direction and operation of an entity's programs, supervising entity employees, developing or approving programmatic policy, authorizing an entity's transactions, or maintaining custody of an entity's assets.</p> <p>c. An audit organization principal or employee recommending a single individual for a specific position that is key to the entity or program under audit, or otherwise ranking or influencing management's selection of the candidate.</p> <p>d. An auditor preparing management's corrective action plan to deal with deficiencies detected in the audit.</p>	<p>3.43</p>	<p>Examples of circumstances that create management participation threats for an auditor follow:</p> <p>a. A member of the engagement team being, or having recently been, a principal or senior manager of the audited entity.</p> <p>b. An auditor serving as a voting member of an entity's management committee or board of directors, making policy decisions that affect future direction and operation of an entity's programs, supervising entity employees, developing or approving programmatic policy, authorizing an entity's transactions, or maintaining custody of an entity's assets.</p> <p>c. An auditor or audit organization recommending a single individual for a specific position that is key to the audited entity or program under audit, or otherwise ranking or influencing management's selection of the candidate.</p> <p>d. An auditor preparing management's corrective action plan to deal with deficiencies detected in the engagement.</p>

<p>A3.09</p>	<p>Examples of circumstances that create structural threats for an auditor include:</p> <p>a. For both external and internal audit organizations, structural placement of the audit function within the reporting line of the areas under audit.</p> <p>b. For internal audit organizations, administrative direction from the audited entity's management.</p>	<p>3.44</p>	<p>Examples of circumstances that create structural threats for an auditor follow:</p> <p>a. For both external and internal audit organizations, structural placement of the audit function within the reporting line of the areas under audit.</p> <p>b. For internal audit organizations, administrative direction from the audited entity's management.</p>
<p>A3.10a</p>	<p>Government audit organizations initiate audits as a result of (1) legal mandates, (2) requests from legislative bodies or oversight bodies, and (3) the audit organization's discretion. In the case of legal mandates and requests, a government audit organization may be required to perform the audit and may not be permitted to make decisions about acceptance or continuance and may not be permitted to resign or withdraw from the audit.</p>	<p>5.13</p>	<p>Government audit organizations initiate engagements as a result of (1) legal mandates, (2) requests from legislative bodies or oversight bodies, and (3) audit organization discretion. In the case of legal mandates and requests, a government audit organization may be required to conduct the engagement and may not be permitted to make decisions about acceptance or continuance and may not be permitted to resign or withdraw from the engagement.</p>
<p>N/A</p>	<p>NEW</p>	<p>5.14</p>	<p>Audit organizations may operate with limited resources. Audit organizations may consider their workloads in determining whether they have the resources to deliver the range of work to the desired level of quality. To achieve this, audit organizations may develop systems to prioritize their work in a way that takes into account the need to maintain quality.</p>
<p>A3.10b</p>	<p>b. GAGAS standards for audit performance, documentation, and reporting are in chapters 4 for financial audits, chapter 5 for attestation engagements, and chapters 6 and 7 for performance audits. Chapter 3 specifies that</p>	<p>5.26</p>	<p>The audit organization's policies and procedures may address consistency in the quality of engagement performance. This is often accomplished through written or electronic manuals, software tools or other forms of</p>

	<p>an audit organization’s quality control system include policies and procedures designed to provide the audit organization with reasonable assurance that audits are performed and reports are issued in accordance with professional standards and legal and regulatory requirements.¹⁸⁷</p> <p>Examples of such policies and procedures include the following:</p> <ol style="list-style-type: none"> (1) communication provided to team members so that they sufficiently understand the objectives of their work and the applicable professional standards; (2) audit planning and supervision; (3) appropriate documentation of the work performed; (4) review of the work performed, the significant judgments made, and the resulting audit documentation and report; (5) review of the independence and qualifications of any external specialists or contractors used, as well as a review of the scope and quality of their work; (6) procedures for resolving difficult or contentious issues or disagreements among team members, including specialists; (7) obtaining and addressing comments from the audited entity on draft reports; and (8) reporting supported by the evidence obtained, and in accordance with applicable professional standards and legal or regulatory requirements. 	<p>standardized documentation, and industry-specific or subject matter- specific guidance materials. Matters addressed may include the following:</p> <ol style="list-style-type: none"> a. maintaining current policies and procedures; b. briefing the engagement team to provide an understanding of the engagement objectives and professional standards; c. complying with applicable engagement standards; d. planning the engagement, supervision, staff training, and mentoring; e. reviewing the work performed, the significant judgments made, and the type of report being issued; f. documenting the work performed and the timing and extent of review; g. reviewing the independence and qualifications of any specialists and the scope and quality of their work; h. resolving difficult or contentious issues or disagreements among team members, including specialists; i. obtaining and addressing comments from the audited entity on draft reports; and j. reporting findings and conclusions supported by the evidence obtained and in accordance with professional standards and applicable legal and regulatory requirements. <p>8.82 If the engagement team intends to use the work of a specialist, it should assess the independence of the specialist.⁷⁴</p>
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	¹⁸⁷ See paragraphs 3.82 through 3.95 for additional discussion of quality control policies and procedures.		
			⁷⁴ See para. 1.27p for the definition of specialist.
A3.10c	(1) Who: Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored (e.g., for specific audits or specific centralized processes). The staff member or team of staff members assigned with responsibility for the monitoring process collectively need sufficient and appropriate competence and authority in the audit organization to assume that responsibility. Generally the staff member or the team of staff members performing the monitoring are apart from the normal audit supervision associated with individual audits.	5.48	Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored.
A3.10c	(2) How much: The extent of monitoring procedures varies based on the audit organization's circumstances to enable the audit organization to assess compliance with applicable professional standards and the audit organization's quality control policies and procedures. Examples of specific monitoring procedures include (a) examination of selected administrative and personnel records pertaining to quality control; (b) review of selected audit documentation, and reports; (c) discussions with the audit organization's personnel (as applicable and appropriate);	5.51	Ongoing consideration and evaluation of the audit organization's system of quality control may include matters such as the following: a. review of selected administrative and human resource records pertaining to the quality control elements; b. review of engagement documentation and reports; c. discussions with the audit organization's personnel; d. determination of corrective actions to be taken and improvements to be made in the system, including providing feedback on the audit organization's policies and procedures relating to education and training; e. communication to appropriate audit organization personnel of weaknesses identified

	<p>(d) periodic summarization of the findings from the monitoring procedures in writing, (at least annually), and consideration of the systematic causes of findings that indicate improvements are needed;</p> <p>(e) determination of any corrective actions to be taken or improvements to be made with respect to the specific audits reviewed or the audit organization's quality control policies and procedures;</p> <p>(f) communication of the identified findings to appropriate audit organization management with subsequent follow-up; and</p> <p>(g) consideration of findings by appropriate audit organization management personnel who also determine whether actions necessary, including necessary modifications to the quality control system, are performed on a timely basis.</p>		<p>in the system, in the level of understanding of the system, or compliance with the system; and</p> <p>f. follow-up by appropriate audit organization personnel so that necessary modifications are promptly made to the quality control policies and procedures.</p>
<p>N/A</p>	<p>NEW</p>	<p>5.50</p>	<p>Ongoing consideration and evaluation of the audit organization's system of quality control may identify circumstances that necessitate changes to, or improve compliance with, the audit organization's policies and procedures to provide the audit organization with reasonable assurance that its system of quality control is effective.</p>
<p>N/A</p>	<p>NEW</p>	<p>5.52</p>	<p>Monitoring procedures may also include an assessment of the following:</p> <p>a. the appropriateness of the audit organization's guidance materials and any practice aids;</p>

			<p>b. new developments in professional standards and applicable legal and regulatory requirements and how they are reflected in the audit organization's policies and procedures, when appropriate;</p> <p>c. written affirmation of compliance with policies and procedures on independence;</p> <p>d. the effectiveness of staff training;</p> <p>e. decisions related to acceptance and continuance of relationships with audited entities and specific engagements; and</p> <p>f. audit organization personnel's understanding of the organization's quality control policies and procedures and implementation thereof.</p>
N/A	NEW	5.53	Reviews of the work by engagement team members prior to the date of the report are not monitoring procedures.
N/A	NEW	5.54	<p>The extent of inspection procedures depends, in part, on the existence and effectiveness of the other monitoring procedures. Inspection is a retrospective evaluation of the adequacy of the audit organization's quality control policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the audit organization's compliance with them. The nature of inspection procedures varies based on the audit organization's quality control policies and procedures and the effectiveness and results of other monitoring procedures.</p>
N/A	NEW	5.55	The inspection of a selection of completed engagements may be performed on a cyclical basis. The manner in which the inspection cycle is organized, including the timing of selection of

			<p>individual engagements, depends on many factors, such as the following:</p> <ul style="list-style-type: none"> a. the size of the audit organization; b. the number and geographical location of offices; c. the results of previous monitoring procedures; d. the degree of authority of both personnel and office (for example, whether individual offices are authorized to conduct their own inspections or whether only the head office may conduct them); e. the nature and complexity of the audit organization's practice and structure; and f. the risks associated with entities audited by the audit organization and specific engagements.
N/A	NEW	5.56	<p>The inspection process involves the selection of individual engagements, some of which may be selected without prior notification to the engagement team. In determining the scope of the inspections, the audit organization may take into account the scope or conclusions of a peer review or regulatory inspections.</p>
N/A	NEW	5.57	<p>Reporting of identified deficiencies to individuals other than the relevant engagement partner or director need not include identifying the specific engagements concerned, unless such identification is necessary for individuals other than the engagement partner or director to properly discharge their responsibilities.</p>

<p>A3.11</p>	<p>Examples of the factors to consider when performing an assessment of peer review risk for selecting audits for peer review¹⁸⁹ include:</p> <ul style="list-style-type: none"> a. scope of the audits including size of the audited entity or audits covering multiple locations; b. functional area or type of government program; c. types of audits provided, including the extent of nonaudit services provided to audited entities; d. personnel (including use of new personnel or personnel not routinely assigned the types of audits provided); e. initial audits; f. familiarity resulting from a longstanding relationship with the audited entity; g. political sensitivity of the audits; h. budget constraints for the audit organization; i. results of the peer review team’s review of the design of system of quality control; j. results of the audit organization’s monitoring process; and k. risk sensitivity of the audit organization. 	<p>5.71</p>	<p>Examples of the factors that may be considered when performing an assessment of risk for selecting engagements for peer review include</p> <ul style="list-style-type: none"> a. scope of the engagements, including size of the audited entity or engagements covering multiple locations; b. functional area or type of government program; c. types of engagements conducted, including the extent of nonaudit services provided to audited entities; d. personnel (including use of new personnel or personnel not routinely assigned the types of engagements conducted); e. initial engagements; f. familiarity resulting from a long-standing relationship with the audited entity; g. political sensitivity of the engagements; h. budget constraints faced by the audit organization that could negatively affect engagement quality; i. results of the peer review team’s review of the design of system of quality control; j. results of the audit organization’s monitoring process; and k. overall risk tolerance within the audit organization that could negatively affect engagement quality.
	<p>¹⁸⁹See paragraph 3.99 for additional discussion of the assessment of peer review risk.</p>		
<p>A3.12</p>	<p>As discussed in paragraph 3.105, an external audit organization should make its most recent peer review report publicly available. Examples of how to achieve this</p>	<p>5.81</p>	<p>To help the public understand the peer review reports, an audit organization may include a description of the peer review process and how it applies to its organization. Examples of</p>

	<p>transparency requirement include posting the peer review report on an external Web site or to a publicly available file. To help the public understand the peer review reports, an audit organization may also include a description of the peer review process and how it applies to its organization. The following provides examples of additional information that audit organizations may include to help users understand the meaning of the peer review report.</p> <ul style="list-style-type: none"> a. Explanation of the peer review process. b. Description of the audit organization’s system of quality control. c. Explanation of the relationship of the peer review results to the audited organization’s work. d. If the peer review report that includes deficiencies or significant deficiencies is modified, explanation of the reviewed audit organization’s plan for improving quality controls and the status of the improvements. 		<p>additional information that audit organizations may include to help users understand the meaning of the peer review report follow:</p> <ul style="list-style-type: none"> a. Explanation of the peer review process. b. Description of the audit organization’s system of quality control. c. Explanation of the relationship of the peer review results to the audited organization’s work. d. If a peer review report is issued with a rating of pass with deficiencies or fail, explanation of the reviewed audit organization’s plan for improving quality controls and the status of the improvements.
<p>A6.01</p>	<p>Chapter 6 discusses the field work standards for performance audits. An integral concept for performance auditing is the use of sufficient, appropriate evidence based on the audit objectives to support a sound basis for audit findings, conclusions, and recommendations. The following discussion is provided to assist auditors in identifying criteria and the</p>		

<p>A6.02</p>	<p>The following are some examples of criteria:¹⁹⁰</p> <ul style="list-style-type: none"> a. purpose or goals prescribed by law or regulation or set by officials of the audited entity, b. policies and procedures established by officials of the audited entity, c. technically developed standards or norms, d. expert opinions, e. prior periods' performance, f. defined business practices, g. contract or grant terms, and h. performance of other entities or sectors used as defined benchmarks. 	<p>8.18</p>	<p>Examples of criteria include:</p> <ul style="list-style-type: none"> a. laws and regulations applicable to the operation of the audited entity; b. goals, policies, and procedures established by officials of the audited entity; c. technically developed standards or norms; d. expert opinions; e. prior periods' performance; f. defined business practices; g. contracts or grant agreements; and h. benchmarks against which performance is compared, including performance of other entities or sectors.
	<p>¹⁹⁰See paragraph 6.37 for additional discussion on identifying audit criteria.</p>		
<p>A6.05</p>	<p>One of the primary factors influencing the assurance associated with a performance audit is the appropriateness of the evidence in relation to the audit objectives.¹⁹² For example:</p> <ul style="list-style-type: none"> a. The audit objectives might focus on verifying specific quantitative results presented by the audited entity. In these situations, the audit procedures would likely focus on obtaining evidence about the accuracy of the specific amounts in question. This work may include the use of statistical sampling. b. The audit objectives might focus on the performance of a specific program or activity in the agency being audited. In these 	<p>8.103</p>	<p>The degree of assurance associated with a performance audit is strongly associated with the appropriateness of evidence in relation to the audit objectives. Examples follow.</p> <ul style="list-style-type: none"> a. The audit objectives might focus on verifying specific quantitative results presented by the audited entity. In these situations, the audit procedures would likely focus on obtaining evidence about the accuracy of the specific amounts in question. This work may include the use of statistical sampling. b. The audit objectives might focus on the performance of a specific program or activity in the audited entity. In these situations, the auditors may be provided information that the audited entity compiled in order to satisfy the

<p>situations, the auditor may be provided with information compiled by the agency being audited in order to answer the audit objectives. The auditor may find it necessary to test the quality of the information, which includes both its validity and reliability.</p> <p>c. The audit objectives might focus on information that is used for widely accepted purposes and obtained from sources generally recognized as appropriate. For example, economic statistics issued by government agencies for purposes such as adjusting for inflation, or other such information issued by authoritative organizations, may be the best information available. In such cases, it may not be practical or necessary for auditors to conduct procedures to verify the information. These decisions call for professional judgment based on the nature of the information, its common usage or acceptance, and how it is being used in the audit.</p> <p>d. The audit objectives might focus on comparisons or benchmarking between various government functions or agencies. These types of audits are especially useful for analyzing the outcomes of various public policy decisions. In these cases, auditors may perform analyses, such as comparative statistics of different jurisdictions or changes in performance over time, where it would be impractical to verify the detailed data underlying the statistics. Clear disclosure as</p>	<p>audit objectives. The auditors may find it necessary to test the quality of the information, which includes both its validity and reliability.</p> <p>c. The audit objectives might focus on information that is used for widely accepted purposes and obtained from sources generally recognized as appropriate. For example, economic statistics issued by government agencies for purposes such as adjusting for inflation, or other such information issued by authoritative organizations, may be the best information available. In such cases, it may not be practical or necessary for auditors to perform procedures to verify the information. These decisions call for use of professional judgment based on the nature of the information, its common usage or acceptance, and how it is being used in the audit.</p> <p>d. The audit objectives might focus on comparisons or benchmarking between various government functions or agencies. These types of audits are especially useful for analyzing the outcomes of various public policy decisions. In these cases, auditors may perform analyses, such as comparative statistics of different jurisdictions or changes in performance over time, where it would be impractical to verify the detailed data underlying the statistics. Clear disclosure of the extent to which comparative information or statistics were evaluated or corroborated will likely be necessary to place the evidence in context for report users.</p>
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	<p>to what extent the comparative information or statistics were evaluated or corroborated will likely be necessary to place the evidence in context for report users.</p> <p>e. The audit objectives might focus on trend information based on data provided by the audited entity. In this situation, auditors may assess the evidence by using overall analytical tests of underlying data, combined with a knowledge and understanding of the systems or processes used for compiling information.</p> <p>f. The audit objectives might focus on the auditor identifying emerging and cross-cutting issues using information compiled or self-reported by agencies. In such cases, it may be helpful for the auditor to consider the overall appropriateness of the compiled information along with other information available about the program. Other sources of information, such as inspector general reports or other external audits, may provide the auditors with information regarding whether any unverified or self-reported information is consistent with or can be corroborated by these other external sources of information.</p>		<p>e. The audit objectives might focus on trend information based on data that the audited entity provided. In this situation, auditors may assess the evidence by using overall analytical tests of underlying data, combined with knowledge and understanding of the systems or processes used for compiling information.</p> <p>f. The audit objectives might focus on identifying emerging and crosscutting issues using information that audited entities compiled or self-reported. In such cases, it may be helpful for the auditors to consider the overall appropriateness of the compiled information along with other information available about the program. Other sources of information, such as inspector general reports or other external audits, may provide the auditors with information regarding whether any unverified or self-reported information is consistent with or can be corroborated by these other external sources of information.</p>
	<p>¹⁹²See paragraphs 6.60 through 6.66 for additional discussion on the appropriateness of evidence.</p>		
<p>A6.07</p>	<p>When the audit objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, “effect” is a measure of the impact</p>	<p>8.131</p>	<p>When the audit objectives include estimating the extent to which a program has caused changes in physical, social, or economic conditions, “effect” is a measure of the program’s impact. In</p>

	<p>achieved by the program. In this case, “effect” is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to the program.</p>		<p>this case, effect is the extent to which positive or negative changes in actual physical, social, or economic conditions can be identified and attributed to the program.</p>
<p>A7.01</p>	<p>Chapter 7 discusses the reporting standards for performance audits. The following discussion is provided to assist auditors in developing and writing their audit report for performance audits.</p>		
<p>A7.02</p>	<p>The auditor may use the report quality elements of timely, complete, accurate, objective, convincing, clear, and concise when developing and writing the audit report as the subject permits.¹⁹⁴ a. Accurate: An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings being traceable to the audit evidence. Reports that are fact-based, with a clear statement of sources, methods, and assumptions so that report users can judge how much weight to give the evidence reported, assist in achieving accuracy. Disclosing data limitations and other disclosures also contribute to producing more accurate audit reports. Reports also are more accurate when the findings are presented in the broader context of the issue. One way to help audit organizations prepare accurate audit reports is to use a quality control process such as referencing. Referencing is a process in which an experienced auditor who is independent of</p>	<p>9.17</p>	<p>The auditor may use the report quality elements of accurate, objective, complete, convincing, clear, concise, and timely when developing and writing the audit report as the subject permits. a. Accurate: An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings being traceable to the audit evidence. Reports that are fact-based, with a clear statement of sources, methods, and assumptions so that report users can judge how much weight to give the evidence reported, assist in achieving accuracy. Disclosing data limitations and other disclosures also contribute to producing more accurate audit reports. Reports also are more accurate when the findings are presented in the broader context of the issue. One way to help the audit organization prepare accurate audit reports is to use a quality control process such as referencing. Referencing is a process in which an experienced auditor who is independent of the audit checks that statements of facts, figures, and dates are correctly reported; the</p>

	<p>the audit checks that statements of facts, figures, and dates are correctly reported, that the findings are adequately supported by the evidence in the audit documentation, and that the conclusions and recommendations flow logically from the evidence.</p> <p>b. Objective: Objective means that the presentation of the report is balanced in content and tone. A report’s credibility is significantly enhanced when it presents evidence in an unbiased manner and in the proper context. This means presenting the audit results impartially and fairly. The tone of reports may encourage decision makers to act on the auditors’ findings and recommendations. This balanced tone can be achieved when reports present sufficient, appropriate evidence to support conclusions while refraining from using adjectives or adverbs that characterize evidence in a way that implies criticism or unsupported conclusions. The objectivity of audit reports is enhanced when the report explicitly states the source of the evidence and the assumptions used in the analysis. The report may recognize the positive aspects of the program reviewed if applicable to the audit objectives. Inclusion of positive program aspects may lead to improved performance by other government organizations that read the report. Audit reports are more objective when they demonstrate that the work has</p>	<p>findings are adequately supported by the evidence in the audit documentation; and the conclusions and recommendations flow logically from the evidence.</p> <p>b. Objective: Objective means that the presentation of the report is balanced in content and tone. A report’s credibility is significantly enhanced when it presents evidence in an unbiased manner and in the proper context. This means presenting the audit results impartially and fairly. The tone of reports may encourage decision makers to act on the auditors’ findings and recommendations. This balanced tone can be achieved when reports present sufficient, appropriate evidence to support conclusions while refraining from using adjectives or adverbs that characterize evidence in a way that implies criticism or unsupported conclusions. The objectivity of audit reports is enhanced when the report explicitly states the source of the evidence and the assumptions used in the analysis. The report may recognize the positive aspects of the program reviewed if applicable to the audit objectives. Inclusion of positive program aspects may lead to improved performance by other government organizations that read the report. Audit reports are more objective when they demonstrate that the work has been performed by professional, unbiased, independent, and knowledgeable personnel.</p> <p>c. Complete: Being complete means that the report contains sufficient, appropriate evidence needed to satisfy the audit objectives and</p>
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	<p>been performed by professional, unbiased, independent, and knowledgeable staff.</p> <p>c. Complete: Being complete means that the report contains sufficient, appropriate evidence needed to satisfy the audit objectives and promote an understanding of the matters reported. It also means the report states evidence and findings without omission of significant relevant information related to the audit objectives. Providing report users with an understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations. Being complete also means clearly stating what was and was not done and explicitly describing data limitations, constraints imposed by restrictions on access to records, or other issues.</p> <p>d. Convincing: Being convincing means that the audit results are responsive to the audit objectives, that the findings are presented persuasively, and that the conclusions and recommendations flow logically from the facts presented. The validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations are more convincing when supported by sufficient, appropriate evidence. Reports designed in this way can help focus the attention of responsible officials on the</p>	<p>promote an understanding of the matters reported. It also means the report states evidence and findings without omission of significant relevant information related to the audit objectives. Providing report users with an understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations. Being complete also means clearly stating what was and was not done and explicitly describing data limitations, constraints imposed by restrictions on access to records, or other issues.</p> <p>d. Convincing: Being convincing means that the audit results are responsive to the audit objectives, that the findings are presented persuasively, and that the conclusions and recommendations flow logically from the facts presented. The validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations are more convincing when supported by sufficient, appropriate evidence. Reports designed in this way can help focus the attention of responsible officials on the matters that warrant attention and can provide an incentive for taking corrective action.</p> <p>e. Clear: Clarity means the report is easy for the intended user to read and understand. Preparing the report in language as clear and simple as the subject permits assists auditors in</p>
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	<p>matters that warrant attention and can provide an incentive for taking corrective action.</p> <p>e. Clear: Clarity means the report is easy for the intended user to read and understand. Preparing the report in language as clear and simple as the subject permits assists auditors in achieving this goal. Use of straightforward, nontechnical language is helpful to simplify presentation. Defining technical terms, abbreviations, and acronyms that are used in the report is also helpful. Auditors may use a highlights page or summary within the report to capture the report user’s attention and highlight the overall message. If a summary is used, it is helpful if it focuses on the specific answers to the questions in the audit objectives, summarizes the audit’s most significant findings and the report’s principal conclusions, and prepares users to anticipate the major recommendations. Logical organization of material, and accuracy and precision in stating facts and in drawing conclusions assist in the report’s clarity and understanding. Effective use of titles and captions and topic sentences makes the report easier to read and understand. Visual aids (such as pictures, charts, graphs, and maps) may clarify and summarize complex material.</p> <p>f. Concise: Being concise means that the report is not longer than necessary to convey and support the message. Extraneous detail</p>	<p>achieving this goal. Use of straightforward, nontechnical language is helpful to simplify presentation. Defining technical terms, abbreviations, and acronyms that are used in the report is also helpful. Auditors may use a highlights page or summary within the report to capture the report user’s attention and highlight the overall message. If a summary is used, it is helpful if it focuses on the audit objectives, summarizes the audit’s most significant findings and the report’s principal conclusions, and prepares users to anticipate the major recommendations. Logical organization of material and accuracy and precision in stating facts and in drawing conclusions assist in the report’s clarity and understandability. Effective use of titles and captions and topic sentences makes the report easier to read and understand. Visual aids (such as pictures, charts, graphs, and maps) may help clarify and summarize complex material.</p> <p>f. Concise: Being concise means that the report is no longer than necessary to convey and support the message. Extraneous detail detracts from a report and may even conceal the real message and confuse or distract the users. Although room exists for considerable judgment in determining the content of reports, those that are fact-based but concise are likely to achieve results.</p> <p>g. Timely: To be of maximum use, providing relevant evidence in time to respond to officials of the audited entity, legislative officials, and</p>
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	<p>detracts from a report, may even conceal the real message, and may confuse or distract the users. Although room exists for considerable judgment in determining the content of reports, those that are fact-based but concise are likely to achieve results.</p> <p>g. Timely: To be of maximum use, providing relevant evidence in time to respond to officials of the audited entity, legislative officials, and other users' legitimate needs is the auditors' goal. Likewise, the evidence provided in the report is more helpful if it is current. Therefore, the timely issuance of the report is an important reporting goal for auditors. During the audit, the auditors may provide interim reports of significant matters to appropriate entity officials. Such communication alerts officials to matters needing immediate attention and allows them to take corrective action before the final report is completed.</p>		<p>other users' legitimate needs is the auditors' goal. Likewise, the evidence provided in the report is more helpful if it is current. Therefore, the timely issuance of the report is an important reporting goal for auditors. During the audit, the auditors may provide interim reports of significant matters to appropriate entity and oversight officials. Such communication alerts officials to matters needing immediate attention and allows them to take corrective action before the final report is completed.</p>
	<p>¹⁹⁴See paragraph 7.08 for additional discussion of report contents.</p>		