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.

7.56 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.

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.

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.

Application Guidance: Obtaining and Reporting the Views of Responsible Officials

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 recommendations but also the perspectives of 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. 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.

7.60 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.

Reporting Confidential or Sensitive Information

Requirements: Reporting Confidential or Sensitive 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 circumstances that make the omission necessary.

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.

7.63 When the audit organization is 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 professional 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.

Application Guidance: Reporting Confidential or Sensitive Information

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.

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.

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.

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.

7.68 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.

Distributing Reports

Requirement: Distributing Reports

7.69 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.

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.

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 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.

Review Engagements

Compliance with Standards

Requirement: Compliance with Standards

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.

Licensing and Certification

Requirements: Licensing and Certification

7.71 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.

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.

Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements

Requirement: Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements

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]

Reporting Auditors' Compliance with GAGAS

Requirement: Reporting Auditors' Compliance with GAGAS

[56]See paras. .23 and .24 of AT-C section 210 (AICPA, *Professional Standards*).

7.74 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]

Application Guidance: Reporting Auditors' Compliance with GAGAS

7.75 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.

7.76 Because review engagements 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 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.

Distributing Reports

Requirement: Distributing Reports

7.77 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

[57]See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.

[58]See para. .46(f)(iii) of AT-C section 210 (AICPA, *Professional Standards*).

distribution. Auditors should document any limitation on report distribution.

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.

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 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.

Agreed-Upon Procedures Engagements

Compliance with Standards

Requirement: Compliance with Standards

7.78 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.

Licensing and Certification

Requirements: Licensing and Certification

7.79 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 working for licensed certified public accounting firms, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.

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.

Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements

Requirement: Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements

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]

Reporting Auditors' Compliance with GAGAS

Requirement: Reporting Auditors' Compliance with GAGAS

7.82 When auditors comply with all applicable GAGAS requirements for agreed-upon procedures engagements, they should include a

[59]See para. .42 of AT-C section 215 (AICPA, *Professional Standards*).

statement in the agreed-upon procedures engagement report that they conducted the engagement in accordance with GAGAS.[60]

Application Guidance: Reporting Auditors' Compliance with GAGAS

7.83 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.

7.84 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.

[60]See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.

[61]See para. .35(j) of AT-C section 215 (AICPA, *Professional Standards*).

[62]See para. .35(g) of AT-C section 215 (AICPA, *Professional Standards*).

Distributing Reports

Requirement: Distributing Reports

7.85 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 the report distribution. Auditors should document any limitation on report distribution.

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.

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.

Reviews of Financial Statements

Compliance with Standards

Requirement: Compliance with Standards

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.

Licensing and Certification

Requirements: Licensing and Certification

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.

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.

Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements

Requirement: Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements

7.89 Auditors should extend the AICPA requirements concerning consideration of noncompliance with laws and regulations to include

[63]AICPA, *Professional Standards*.

consideration of noncompliance with provisions of contracts and grant agreements.[64]

Reporting Auditors' Compliance with GAGAS

Requirement: Reporting Auditors' Compliance with GAGAS

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]

Application Guidance: Reporting Auditors' Compliance with GAGAS

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.

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 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

[64]See para. .51 of AR-C section 90 (AICPA, *Professional Standards*).

[65]See paras. 2.16 through 2.19 for information on the GAGAS compliance statement.

[66]AICPA, *Professional Standards*.

[67]AICPA, *Professional Standards*.

[68]See para. .39(c)(vi) of AR-C section 90 (AICPA, *Professional Standards*).

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.

Distributing Reports

Requirement: Distributing Reports

7.93 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.

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.

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.

Chapter 8: Fieldwork Standards for Performance Audits

8.01 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.

8.02 The fieldwork requirements for performance audits relate to planning the audit; conducting the engagement; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of evidence, significance, and audit risk form a framework for applying these requirements and are included throughout the discussion of performance audits.

Planning

Requirements: General

8.03 Auditors must adequately plan the work necessary to address the audit objectives. Auditors must document the audit plan.

8.04 Auditors must plan the audit to reduce audit risk to an acceptably low level.

8.05 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 objectives. Planning is a continuous process throughout the audit.

8.06 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.

8.07 Auditors should identify and use suitable criteria based on the audit objectives.

Application Guidance: General

8.08 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.

8.09 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.

8.10 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.

8.11 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.

8.12 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.

8.13 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.

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.

8.15 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.

8.16 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 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.

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 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.

8.18 Examples of criteria include

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.

8.19 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.

Auditor Communication

Requirements: Auditor Communication

8.20 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:

- **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; or
- **d.** the cognizant legislative committee, when auditors conduct the audit pursuant to a law or regulation or when they conduct the work for the legislative committee that has oversight of the audited entity.

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.

8.22 Auditors should retain any written communication resulting from paragraph 8.20 as audit documentation.

Application Guidance: Auditor 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.

8.24 Examples of communications regarding the objectives, scope, methodology, and timing that could impair the auditors' 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.

8.25 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.

8.26 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.

Investigations or Legal Proceedings

Requirement: Investigations or Legal Proceedings

8.27 Auditors should inquire of management of the audited entity whether any investigations or legal proceedings significant to the audit objectives 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.

Application Guidance: Investigations or Legal Proceedings

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.

8.29 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 engagement or a portion of the engagement to avoid interfering with an ongoing investigation or legal proceeding.

Results of Previous Engagements

Requirement: Results of Previous Engagements

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.

Assigning Auditors

Requirements: Assigning Auditors

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,

- **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.

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

- **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.

Preparing a Written Audit Plan

Requirement: Preparing a Written Audit Plan

8.33 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.

Application Guidance: Preparing a Written Audit Plan

8.34 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.

8.35 A written audit plan provides an opportunity for audit organization management to supervise audit planning and to determine whether

a. the proposed audit objectives are likely to result in a useful report;

b. the audit plan adequately addresses relevant risks;

c. the proposed audit scope and methodology are adequate to address the audit objectives;

d. available evidence is likely to be sufficient and appropriate for purposes of the audit; and

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.

Conducting the Engagement

Nature and Profile of the Program and User Needs

Requirement: Nature and Profile of the Program and User Needs

8.36 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

a. visibility, sensitivity, and relevant risks associated with the program under audit;

b. age of the program or changes in its condition;

c. the size of the program in terms of total dollars, number of citizens affected, or other measures;

d. level and extent of review or other forms of independent oversight;

e. the program's strategic plan and objectives; and

f. external factors or conditions that could directly affect the program.

Application Guidance: Nature and Profile of the Program and User Needs

8.37 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.

8.38 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 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:

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.

b. Purpose and goals: Purpose is the result or effect that is intended or desired from a program's operation. Legislatures usually establish a 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.

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.

d. Inputs: Inputs are the amount of resources (in terms of, for example, money, material, or personnel) that is 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 used.

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.

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.

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 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.

Determining Significance and Obtaining an Understanding of Internal Control

Requirements: Determining Significance and Obtaining an Understanding of Internal Control

8.39 Auditors should determine and document whether internal control is significant to the audit objectives.[69]

8.40 If it is determined that internal control is significant to the audit objectives, auditors should obtain an understanding of such internal control.

[69]See fig.4 at the end of ch. 8 for a flowchart on consideration of internal control in a GAGAS performance audit.

Application Guidance: Determining Significance and Obtaining an Understanding of Internal Control

8.41 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

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.

8.42 If internal control is significant to the audit objectives, auditors determine which of the five components of internal control 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 the underlying principles, control objectives, or specific controls that are significant to the audit objectives. Determining which internal control components, principles, control objectives, and/or specific controls are significant to the audit objectives is a matter of professional judgment.

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.

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.

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.

[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).

8.46 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.

8.47 Approaches for obtaining an understanding of internal control may vary and may include consideration of entity-level controls, transaction-level controls, or both. However, 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.

8.48 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:

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.

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.

Assessing Internal Control

Requirement: Assessing Internal Control

8.49 If internal control is determined to be significant to the audit objectives, auditors should plan and perform audit procedures to assess internal control to the extent necessary to address the audit objectives.

Application Guidance: Assessing Internal Control

8.50 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.

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.

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.

8.53 During the assessment of each control, deficiencies in internal control may be identified. A deficiency in internal control exists when the 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.

Internal Control Deficiencies Considerations

Requirement: Internal Control Deficiencies Considerations

8.54 Auditors should evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives.

Application Guidance: Internal Control Deficiencies Considerations

8.55 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 combination, the deficiencies are significant within the context of the audit objectives.[72]

8.56 Determining whether deficiencies are significant within the context of the audit objectives involves evaluating the following factors:

[71] See paras. 1.27g and 1.27k for definitions of control objective and entity objective.

[72] See paras. 9.29 through 9.34 for a discussion of reporting on internal control.

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.

b. Likelihood of occurrence: Likelihood of occurrence refers to the possibility of a deficiency impacting an entity's ability to achieve its objectives.

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.

8.57 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.

8.58 The following are examples of control deficiencies:

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.

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.

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.

d. Inadequate controls for the safeguarding of assets.

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.

f. Failure of an application control caused by a deficiency in the design or operation of an information system's general controls.

g. Employees or management who lack the qualifications and training to fulfill their assigned functions.

Information Systems Controls Considerations

Requirements: Information Systems Controls Considerations

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.

8.60 When information systems controls are determined to be significant to the audit objectives or when the effectiveness of significant controls depends on the effectiveness of information systems controls, auditors should then evaluate the design, implementation, and/or operating effectiveness of such controls. This evaluation includes other information systems controls that affect the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives.

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.

8.62 When evaluating information systems controls is an audit objective, auditors should test information systems controls to the extent necessary to address the audit objective.

Application Guidance: Information Systems Controls Considerations

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 information systems processing and include general controls, application controls, and user controls.

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.

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.

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.

8.64 An entity's use of information systems controls may be extensive; however, auditors are primarily interested in those information systems controls that are significant to the audit objectives. Information systems controls are significant to the audit objectives if auditors determine that it is necessary to evaluate the effectiveness of these controls in order to obtain sufficient, appropriate evidence. For example, an audit objective may involve evaluating the effectiveness of information systems controls related to certain systems, facilities, or entities.

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.

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.

8.67 The following factors may assist auditors in determining the significance of information system controls to the audit objectives:

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.

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.

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.

Provisions of Laws, Regulations, Contracts, and Grant Agreements

Requirement: Provisions of Laws, Regulations, Contracts, and Grant Agreements

8.68 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.

Application Guidance: Provisions of Laws, Regulations, Contracts, and Grant Agreements

8.69 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 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 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 law enforcement authorities, to obtain information on compliance matters.

8.70 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 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.

Fraud

Requirements: Fraud

8.71 Auditors should assess the risk of fraud occurring that is 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.

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.

Application Guidance: Fraud

8.73 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.

8.74 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 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.

8.75 In some circumstances, conditions such as the following could indicate a heightened risk of fraud:

a. economic, programmatic, or entity operating conditions that threaten the entity's financial stability, viability, or budget;

b. the nature of the entity's operations provide opportunities to engage in fraud;

c. management's monitoring of compliance with laws, regulations, and policies is inadequate;

d. the organizational structure is unstable or unnecessarily complex;

e. management communication or support for ethical standards is lacking;

f. management is willing to accept unusually high levels of risk in making significant decisions;

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;

h. operating policies and procedures have not been developed or are outdated;

i. key documentation is lacking or does not exist;

j. asset accountability or safeguarding procedures are lacking;

k. a history of improper payments;

l. evidence of false or misleading information; and

m. evidence of unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.

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.

Identifying Sources of Evidence and the Amount and Type of Evidence Required

Requirements: Identifying Sources of Evidence and the Amount and Type of Evidence Required

8.77 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.

8.78 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, appropriate evidence could be the basis for audit findings.

Application Guidance: Identifying Sources of Evidence and the Amount and Type of Evidence Required

8.79 If auditors believe 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.

Using the Work of Others

Requirements: Using the Work of Others

8.80 Auditors should determine whether other auditors have conducted, or are conducting, audits that could be relevant to the current audit objectives.

8.81 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]

8.82 If the engagement team intends to use the work of a specialist, it should assess the independence of the specialist.[74]

Application Guidance: Using the Work of Others

8.83 The results of other auditors' work may be useful sources of information for planning and conducting the audit. If other auditors have identified areas that warrant further audit work or follow-up, their work may influence the auditors' selection of objectives, scope, and methodology.

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.

8.85 If other auditors have completed audit work related to the objectives of the current audit, the current auditors may be able to use the work of the other auditors to support findings or conclusions for the current audit and thereby avoid duplication of effort. Procedures that auditors may perform in making this determination include reviewing the other audit report, audit plan, or audit documentation, 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.

8.86 The engagement team's assessment of the independence of specialists who perform audit work includes identifying threats and

[73]See para. 5.80 for additional discussion on using the work of other auditors and peer review reports.

[74]See para. 1.27p for the definition of specialist.

applying any necessary safeguards in the same manner as they would for auditors performing work on those audits.[75]

Supervision

Requirement: Supervision

8.87 Auditors must properly supervise audit staff.

Application Guidance: Supervision

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.

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.

Evidence

Requirements: Evidence

8.90 Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for addressing the audit objectives and supporting their findings and conclusions.

8.91 In assessing the appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable.

8.92 In determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the

[75]See paras. 3.18 through 3.108 for requirements and guidance related to independence.

audit objectives and support the findings and conclusions to the extent that would persuade a knowledgeable person that the findings are reasonable.

8.93 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.

8.94 Auditors should evaluate the objectivity, credibility, and reliability of testimonial evidence.

Application Guidance: Evidence

8.95 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.

8.96 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 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.

8.97 Auditors may request that management provide written representations as to the accuracy and completeness of information provided.

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.

Sufficiency

8.99 Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives.

8.100 When appropriate, auditors may use statistical methods to analyze and interpret evidence to assess its sufficiency.

8.101 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.

- **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.

Appropriateness

8.102 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.

- **a.** Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the issue being addressed.

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.

c. Reliability refers to the consistency of results when information is measured or tested and 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.

8.103 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.

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 audit objectives. The auditors may find it necessary to test the quality of the information, which includes both its validity and reliability.

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.

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.

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.

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.

8.104 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 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 used to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk.

- **a.** Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.[77]
- **b.** Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.
- **c.** Examination of original documents is generally more reliable than examination of copies.
- **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.
- **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.
- **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.

8.105 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.

8.106 Surveys generally provide self-reported information about existing conditions or programs. Evaluating the survey design and administration

[77]See paras. 8.39 through 8.67 for a discussion of internal control.

assists auditors in evaluating the objectivity, credibility, and reliability of the self-reported information.

8.107 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.

Overall Assessment of Evidence

Requirements: Overall Assessment of Evidence

8.108 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.

8.109 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.

8.110 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.

Application Guidance: Overall Assessment of Evidence

8.111 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 evidence obtained is sufficient and appropriate.

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.

8.113 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 supporting the findings or conclusions within the context of the audit objectives.

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.

8.114 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.

8.115 Additional procedures that could address limitations or uncertainties in evidence that are significant to the audit findings and conclusions include

a. seeking independent, corroborating evidence from other sources;

b. redefining the audit objectives or the audit scope to eliminate the need to use the evidence;

c. presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions; and

d. determining whether to report the limitations or uncertainties as a finding, including any related significant internal control deficiencies.

Findings

Requirements: Findings

8.116 As part of a performance audit, when auditors identify findings, they 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.

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.

Application Guidance: Findings

8.118 Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud.

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.

8.120 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.

8.121 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.

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.

8.123 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.

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).

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.

8.125 Condition: Condition is a situation that exists. The condition is determined and documented during the audit.

8.126 Cause: The cause is the factor or factors responsible for the difference between the condition and the criteria, and 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.

8.127 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.

8.128 The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding. For example, an audit objective may be to determine the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. In this situation, developing the condition would address the audit objective, and developing the other elements of a finding would not be necessary.

8.129 The cause of a finding may relate to an underlying internal control deficiency. For example, auditors conducting a compliance audit may find that an audited entity has not complied with certain legislation. Upon further evaluation, the auditors may find the root cause of the finding to be that one of the entity's control activities was not properly designed. In this case, the finding would be an instance of noncompliance, but the cause of the finding would be an internal control deficiency.