SECTION 100

Introduction

Contents of the Introduction

|  |
| --- |
| Introduction FAM   * Overview of the FAM Methodology 110 |
| Planning Phase FAM   * Overview of the Planning Phase 210 * Perform Preliminary Engagement Activities 215 * Understand the Entity’s Operations 220 * Perform Preliminary Analytical Procedures 225 * Determine Materiality 230 * Identify Material Line Items, Accounts, Note Disclosure, and Classes of Transactions; 235 Applicable Assertions; and Significant Financial Management Systems * Identify Significant Provisions of Applicable Laws, Regulations, Contracts, and Grant Agreements 245 * Identify Relevant Budget Restrictions 250 * Understand the Entity’s Internal Control 260 * Identify Risks of Material Misstatement and Assess Inherent Risk 265 * Determine Likelihood of Effective IS Controls 270 * Identify Relevant Operations Controls to Evaluate and Test 275 * Plan Other Audit Procedures 280 * Plan Locations to Test 285 * Documentation 290 |
| Internal Control Phase FAM   * Overview of the Internal Control Phase 310 * Understand Information Systems 320 * Identify Control Objectives 330 * Identify and Understand Control Activities 340 * Determine the Nature, Extent, and Timing of Tests of Controls and Compliance with FFMIA 350 * Perform Tests of Controls and Compliance with FFMIA 360 * Assess Internal Control on a Preliminary Basis 370 * Other Considerations 380 * Documentation 390 |
| Testing Phase FAM   * Overview of the Testing Phase 410 * Determine the Nature, Extent, and Timing of Further Audit Procedures 420 * Design Tests 430 * Perform Tests and Evaluate Results 440 * Perform Sampling Control Tests 450 * Perform Compliance Tests 460 * Perform Substantive Procedures -- Overview 470 * Perform Substantive Analytical Procedures 475 * Perform Substantive Detail Tests 480 * Documentation 490 |
| Reporting Phase FAM   * Overview of the Reporting Phase 510 * Perform Overall Analytical Procedures 520 * Reassess Materiality and Risks of Material Misstatement 530 * Evaluate Effects of Misstatements on Financial Statements and Auditor’s Reports 540 * Audit Exposure (Further Evaluation of Audit Risk) 545 * Perform Other Reporting Phase Audit Procedures 550 * Determine Whether Financial Statement Presentation is in Accordance with U.S. GAAP 560 * Determine Compliance with GAO/CIGIE Financial Audit Manual 570 * Draft Reports 580 * Documentation 590 |

110 – Overview of the FAM Methodology

This introduction provides an overview of the methodology of the Government Accountability Office (GAO) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) for performing financial statement audits of federal entities. It describes how the methodology in the *Financial Audit Manual* (FAM) relates to relevant professional auditing and attestation standards and Office of Management and Budget (OMB) audit guidance and outlines key issues to be considered in using the methodology.[[1]](#footnote-1)

The purposes of performing financial statement audits of federal entities include

* providing decision makers (financial statement users) with assurance as to whether the financial statements are reliable (presented fairly in all material respects, in accordance with U.S. generally accepted accounting principles (U.S. GAAP));[[2]](#footnote-2)
* reporting deficiencies in internal control over financial reporting or, in certain circumstances, providing an opinion on the effectiveness of internal control over financial reporting; and
* reporting on noncompliance with significant provisions of applicable laws, regulations, contracts, and grant agreements (see FAM 245 for guidance on identifying such provisions).

To achieve these purposes, the FAM approach to federal financial statement audits involves four phases—planning, internal control, testing, and reporting—which are outlined in the rest of this section. In broad terms, the auditor does the following:

adequately plans the audit to obtain sufficient appropriate evidence;

understands the design of the entity’s internal control, determines whether the controls were implemented as designed, assesses the risks of material misstatement, designs appropriate tests of controls and substantive procedures, and for the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies, determines whether financial management systems comply substantially with the three requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA):

* federal financial management systems requirements,
* applicable federal accounting standards, and
* the *U.S. Standard General Ledger* at the transaction level;[[3]](#footnote-3)

tests the significant assertions related to the financial statements, internal control effectiveness, and compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements; and

reports the results of audit procedures performed and performs other audit procedures to complete the audit in accordance with generally accepted government auditing standards (GAGAS).

The FAM audit phases are illustrated in the FAM methodology overview in the contents and are summarized in the following pages of this section.[[4]](#footnote-4)

Planning Phase

Although planning continues throughout the audit, the objectives of this phase are to gain an understanding of the entity to be audited; to understand its environment, including internal control; to identify significant areas for audit; and to design effective and efficient audit procedures. To accomplish this, the methodology includes guidance in the following:

1. performing preliminary engagement activities relating to (1) acceptance and continuance of client relationships and audit engagements; (2) compliance with relevant ethical requirements; and (3) establishing an understanding of the terms of the engagement with management and, when appropriate, those charged with governance, including establishing that certain preconditions for an audit are present;
2. understanding the entity’s operations, including (1) its environment, legal and regulatory framework, accounting policies, use of accounting estimates, and relationships and transactions with disclosure entities, related parties, and public-private partnerships; (2) the applicable financial reporting framework (generally U.S. GAAP);[[5]](#footnote-5) and (3) the effect of inherent risk factors on the preparation of the financial statements.
3. performing analytical procedures to assist in planning the audit;
4. determining materiality for the financial statements as a whole, including performance materiality, which is the portion of materiality that the auditor allocates to line items, accounts, note disclosures, and classes of transactions;
5. identifying material line items, accounts, note disclosures, and classes of transactions, applicable assertions, and significant financial management systems;
6. identifying significant provisions of applicable laws, regulations, contracts, and grant agreements and relevant budget restrictions;
7. understanding the components of internal control, including the effect of information technology on internal control;
8. identifying risks of material misstatement and assessing inherent risk;
9. determining the likelihood of effective information system (IS) controls;
10. identifying relevant operations controls to evaluate and test;
11. planning other audit procedures; and
12. establishing the overall audit strategy and developing an audit plan, including entity field locations to test.

Based on evidence obtained throughout the audit, the auditor should monitor and revise, if needed, preliminary assessments made during the planning phase for risks of material misstatement and the likelihood of control effectiveness. The auditor should revise audit procedures as needed.

Internal Control Phase

This phase entails understanding, testing, and assessing internal control over financial reporting to conclude on whether the following internal control objectives have been achieved:

**Reliability of financial reporting**—transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with U.S. GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

**Compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements**—transactions are executed in accordance with significant provisions of applicable laws, including those governing the use of budget authority, regulations contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

According to OMB audit guidance, for those controls that have been suitably designed and implemented, the auditor should perform sufficient tests of such controls to conclude whether the controls are operating effectively (i.e., sufficient tests of controls to support a low level of assessed control risk). OMB audit guidance does not require the auditor to express an opinion on the effectiveness of internal control.

As required by GAGAS (2018) 6.42, if the auditor does not express an opinion on internal control, the auditor should state in the report whether tests performed provided sufficient, appropriate evidence to express an opinion on the effectiveness of internal control over financial reporting.

GAO auditors[[6]](#footnote-6) should design the audit to express an opinion on internal control over financial reporting.[[7]](#footnote-7) For audits that GAO performs, the internal control testing described in the OMB audit guidance and in the FAM typically is sufficient to provide an opinion on internal control effectiveness. Sufficiency and appropriateness of audit evidence is a matter of auditor judgment.

The FAM also provides guidance on evaluating internal controls related to operating objectives that the auditor **elects** to evaluate. Such controls include those related to safeguarding assets from waste or preparing statistical reports.

To evaluate internal control, the auditor identifies and understands the relevant controls and tests their effectiveness. Where the auditor determines controls to be effective, the extent of substantive procedures can be reduced.

The FAM also includes guidance on

assessing specific levels of control risk;

selecting controls to test;

determining the effectiveness of IS controls; and

testing controls, including coordinating control tests in the testing phase for efficiency.

Also, during the internal control phase, in regard to FFMIA, auditors should follow OMB audit guidance, if applicable.

Testing Phase

The objectives of this phase are to (1) obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in accordance with U.S. GAAP; (2) determine whether the entity complied with significant provisions of applicable laws, regulations, contracts, and grant agreements; and (3) assess the effectiveness of internal control over financial reporting through testing controls, often in coordination with other tests.

To achieve these objectives, the FAM includes guidance on

designing and performing substantive, compliance, and control tests;

designing and evaluating audit samples;

correlating risk of material misstatement, audit risk, and materiality with the nature, timing, and extent of substantive procedures; and

designing multipurpose tests that use a common sample to test several different controls, specific accounts or transactions, and assertions.

Reporting Phase

This phase completes the audit based on the results of audit procedures performed in the preceding phases. This involves developing the auditor’s report on the entity’s

* + - * + financial statements, required supplementary information (RSI) (including management’s discussion and analysis (MD&A)), and other information included in the annual report;
        + internal control over financial reporting;
        + financial management systems’ substantial compliance with the three FFMIA requirements (for CFO Act agencies); and
        + compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements.

To assist in this process, the FAM includes guidance on forming an opinion on the financial statements and conclusions on internal control, as well as reporting findings. Included in FAM 595 A are two examples of auditor’s reports. The first example shows when the auditor expresses an opinion on internal control, and the second when the auditor issues a report on internal control.

Relationship to Applicable Standards

This section describes the FAM’s relationship to applicable auditing standards, OMB audit guidance, and other policy requirements. This section is organized into three areas:

relevant auditing standards and OMB audit guidance,

* audit guidance beyond the *Government Auditing Standards* (also known as GAGAS or the Yellow Book) issued by the Comptroller General of the United States,[[8]](#footnote-8) and

auditing standards and policies not addressed in this manual.

Relevant Auditing Standards and OMB Audit Guidance

The FAM provides a framework for performing financial statement audits of federal entities in accordance with GAGAS and OMB audit guidance. GAGAS incorporates, by reference, U.S. generally accepted auditing standards (U.S. GAAS) and attestation standards established by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA). The Yellow Book is available at [www.gao.gov](http://www.gao.gov).

The FAM is an audit methodology that both integrates the requirements of the standards and provides implementation guidance based on practical experience. The FAM is designed to achieve the following:

* **Effective audits**, by considering compliance with GAGAS; significant provisions of applicable laws, regulations, contracts and grant agreements; and OMB audit guidance.
* **Efficient audits**, by focusing audit procedures on areas of higher risk and materiality and by providing an integrated approach designed to gather audit evidence efficiently.
* **Quality control**, through an agreed-upon framework that is documented and that all personnel can follow.
* **Consistency of application**, through a documented methodology.

The FAM supplements GAGAS and OMB audit guidance and includes references to the AICPA’s *Auditing Standards [Clarified]* (AU-C) and *Standards for Attestation Engagements [Clarified]* (AT-C). The AICPA standards are incorporated by reference into GAGAS.

Audit Guidance beyond GAGAS

In addition to complying with GAGAS, for audits to which OMB audit guidance applies, the auditor should

perform sufficient tests of internal controls over financial reporting that have been suitably designed and implemented to support a low level of assessed control risk;

evaluate and test controls related to budget execution and compliance with selected significant provisions of applicable laws, regulations, contracts, and grant agreements;

understand the design of the entity’s process for complying with 31 U.S.C. § 3512 (c), (d) (commonly known as the Federal Managers’ Financial Integrity Act of 1982) and whether the design has been implemented;

perform tests to report on the entity’s financial management systems’ substantial compliance with the three FFMIA requirements, as required by OMB audit guidance (for CFO Act agencies);

test for compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements;

read the required supplementary information, including management’s discussion and analysis, for conformity with Federal Accounting Standards Advisory Board standards and OMB reporting guidance;[[9]](#footnote-9) and

read the other information for conformity with OMB reporting guidance.

Auditors may design procedures to consider and report whether misstatements and internal control weaknesses could affect the achievement of operations objectives or the accuracy of reports prepared by the entity.

GAO auditors generally should design audits to express an opinion on the entity’s internal control over financial reporting. When an auditor is engaged to perform an audit of internal control over financial reporting that is integrated with an audit of financial statements, it is referred to as an integrated audit. AU-C 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, addresses integrated audits and certain requirements have been included in the FAM, but auditors should refer to AU-C 940 as needed for more detailed guidance.

Auditing Standards and Policies Not Addressed in the Manual

The FAM supplements financial audit standards and policies that GAO and the inspectors general (IG) have adopted. It is not intended to address all standards or policies. For example, report processing is not addressed. Further, IGs may use other methodologies that are equivalent to the FAM for conducting financial statement audits in accordance with GAGAS, including AICPA auditing standards and OMB audit guidance.[[10]](#footnote-10)

Throughout the FAM, there are references to various laws, regulations, OMB audit guidance, and other government requirements that are subject to change periodically. Auditors should monitor any changes and ensure that they are using the most updated versions.

Key Implementation Considerations

In applying the FAM, the auditor considers

audit objectives;

exercise of professional judgment and professional skepticism;

form, content, and extent of audit documentation;

references to positions;

using the work of others;

compliance with the FAM;

use of technical terms; and

reference to sections of the FAM.

These items are discussed in more detail below.

Audit Objectives

For audits of entities not subject to OMB audit guidance, the auditor should evaluate whether to conduct those audits in accordance with OMB audit guidance to achieve the audits’ objectives. The FAM generally assumes that the objectives of an audit are to express an opinion on the current-year financial statements as part of a 2-year opinion on comparative financial statements, to issue a report (or opinion) on internal control over financial reporting, and to issue a report on compliance. When these are not the objectives, the auditor uses judgment in applying the FAM guidance. In some circumstances, the auditor may expect to issue a disclaimer on the current-year financial statements because of scope limitations, including the auditability of information. In these circumstances, the auditor may develop a multiyear plan in order to express a future opinion when the financial statements are expected to become auditable.

Exercise of Professional Judgment and Professional Skepticism

The auditor should exercise professional judgment in planning and performing an audit of the financial statements (AU-C 200.18), including in evaluating the quantity and quality of audit evidence, and thus its sufficiency and appropriateness, in determining the audit opinion. Although the auditor may find it necessary to rely on audit evidence that is persuasive rather than conclusive to obtain reasonable assurance, the auditor must not be satisfied with audit evidence that is less than persuasive. The auditor should tailor the guidance in the FAM, if needed, to respond to specific situations encountered during an audit. However, the auditor must, at a minimum, meet professional standards. Proper application of professional judgment and skepticism may result in more extensive audit work than described in the FAM. The auditor should document these decisions.

The auditor should plan and perform an audit with professional skepticism, recognizing that circumstances may exist that cause the financial statements to be materially misstated (AU-C 200.17). The auditor’s past experience, or a belief that management and those charged with governance are honest and have integrity, does not relieve the auditor of the need to maintain professional skepticism (AU-C 200.A27 and 240.12). Professional skepticism includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries (AU-C 200.A25). If the auditor believes that a document may have been altered or is not authentic, then the auditor should investigate further (AU-C 240.13).

When exercising judgment, particularly when tailoring FAM guidance, the component auditor should consider the needs of, and consult in a timely manner with, the group auditors who plan to use the work being performed so that the judgments exercised can satisfy the needs of both auditors. For example, group auditors of a consolidated entity (such as the U.S. government or an entire department or entity) are likely to plan to use the work of component auditors of subsidiary entities (such as individual departments and entities or bureaus and components of departments). This coordination can result in more effective government audits and avoid duplication of effort.

Many aspects of a financial statement audit involve technical judgments. The auditor is responsible for making these judgments. The audit organization should have or contract for personnel with adequate technical expertise to provide technical assistance to the auditor, including the following example areas, as necessary:

1. quantifying materiality for the financial statements as a whole, performance materiality, and using tolerable misstatement in determining the extent of substantive sampling procedures (see FAM 230);
2. identifying and assessing the risks of material misstatement (see FAM 265 and 370);
3. assessing the effectiveness of IS controls (see FAM 270);
4. specifying a minimum level of substantive assurance based on the assessed risk of material misstatement, substantive analytical procedures, and substantive detail tests (see FAM 470, 475, and 480);
5. determining whether selections are statistical samples (representative of, and statistically projectable to, the population), nonstatistical samples (representative of, but not statistically projectable to, the population), or nonstatistical selections (not representative of, and not projectable to, the population) (see FAM 430);
6. using audit sampling methods, such as monetary unit sampling, classical variables estimation sampling, or classical probability proportional to size sampling, for substantive or multipurpose testing (including nonstatistical sampling) (see FAM 480);
7. using audit sampling for control testing, other than attribute sampling, and using the tables in FAM 450 to determine sample size when not performing a multipurpose test;
8. using audit sampling for compliance testing of significant provisions of applicable laws, regulations, contracts, and grant agreements, other than attribute sampling using the tables in FAM 460, to determine sample size when not performing a multipurpose test; and
9. placing complete or partial reliance on analytical procedures, using performance materiality to calculate the limit, which is the amount of difference between the expected and recorded amounts that can be accepted without further investigation (see FAM 475).

Form, Content, and Extent of Audit Documentation

Each phase of the FAM methodology includes documentation requirements (see FAM 290, 390, 490, and 590). In addition, the auditor should prepare documentation that ensures the following:

The auditor should prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand (1) the nature, timing, and extent of the audit procedures performed to comply with GAGAS; (2) the results of the audit procedures performed and the audit evidence obtained; and (3) significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions (AU-C 230.08).

In documenting the nature, timing, and extent of audit procedures performed, the auditor should record (a) the identifying characteristics of the specific items or matters tested, (b) who performed the audit work and the date such work was completed, and (c) who reviewed the audit work performed and the date and extent of such review (AU-C 230.09). For GAO, see Financial Audit Practice Memo #6 (Supplemental Financial Audit Manual Guidance Applicable Only to GAO Engagements) for further information on GAO’s policies regarding audit documentation and reviews.

The auditor should prepare audit documentation on a timely basis (AU‑C 230.07).

The auditor should adopt reasonable procedures to maintain the confidentiality of client information (AU-C 230.19), such as physical safeguards over hard copy client information and access restrictions to information systems containing client information.

References to Positions

Various sections of the FAM refer to consultation with audit management, persons with the technical expertise to obtain approval or additional guidance, or both. The auditor should document key consultations. Each audit organization should have written evidence, in the audit documentation or in its audit policy manual, of the specific positions of persons who will perform these functions.

The following are references to positions at GAO; however, descriptions of position responsibilities in relation to the audit are included so that the positions or roles can be identified in other audit organizations. IGs performing audits or using firms to perform audits in accordance with the FAM should clarify and document the positions of the persons that the auditor should consult in various circumstances.

1. The **audit director** (engagement partner or first partner) is responsible for the quality of the financial statement audit and the audit report, reporting to the assistant IG for the audit or, at GAO, to the managing director.
2. The **assistant director** is responsible for the operational conduct of the audit and generally for preparation of the audit report. In public accounting firms, the **audit manager** may have these responsibilities.
3. The **reviewer** (engagement quality control reviewer or second partner) is not part of the engagement team and has sufficient and appropriate experience and authority to objectively evaluate the significant judgments that the engagement team made and the conclusions it reached in formulating the auditor’s report. This review must be completed before the audit report is issued and may be conducted at appropriate stages during the engagement to allow significant findings or issues to be promptly identified and resolved to the reviewer’s satisfaction.[[11]](#footnote-11) The FAM includes references to certain documentation that must be provided to the reviewer. The reviewer may request additional documentation as necessary.
4. The **audit sampling specialist** is a statistician or other person the auditor consults for technical expertise in areas such as audit sampling, audit sample evaluation, and selecting entity field locations to test.
5. The **IS controls auditor** has technical expertise in information systems, general controls, application controls, and information security. This person is involved with the planning, directing, or performing of audit procedures related to IS controls.[[12]](#footnote-12)
6. The **information technology specialist** possesses special skills or knowledge in the information technology field that extend beyond the skills and knowledge normally possessed by those working in specialized fields of auditing, such as an IS controls auditor.
7. The **Office of the General Counsel (OGC)** advises the auditor in (1) identifying significant provisions of applicable laws and regulations to test; (2) identifying budget restrictions; and (3) identifying and resolving legal issues encountered during the financial statement audit, such as evaluating potential instances of noncompliance.[[13]](#footnote-13)
8. The **Special Investigator Unit** investigates specific allegations involving conflict-of-interest and ethics matters, contract and procurement irregularities, official misconduct and abuse, and fraud in federal programs or activities. In the offices of the IGs, this is the investigation unit; at GAO, it is the Forensic Audits and Investigative Service team. The Special Investigator Unit provides assistance to the auditor by (1) informing the auditor of relevant pending or completed investigations of the entity and (2) investigating possible instances of fraud, waste, and abuse.

Using the Work of Others

The auditor should consider whether specialized skills are needed to perform the audit. If specialized skills are needed, the auditor should seek the assistance of a professional possessing such skills, who either may be a member of the auditor’s staff or an outside professional. In such circumstances, the auditor should have sufficient knowledge to communicate the objectives of the other professional’s work; evaluate whether the specified audit procedures will meet the auditor’s objectives; and evaluate the results of the audit procedures applied as they relate to the nature, timing, and extent of further planned audit procedures (AU-C 300.12). See FAM 600 for guidance in using the work of others.

Compliance with the FAM

The following terms are used throughout the FAM (all volumes) to describe the degree of compliance:

* **Must:** Compliance is mandatory when the circumstances exist to which the requirement is relevant. Most “musts” indicate unconditional requirements that come directly from professional auditing standards, while other instances of “must” are unique needs for the government environment and, therefore, GAO/CIGIE determined them to be required.
* **Should:** Compliance is mandatory when the circumstances exist to which the requirement is relevant, except in rare circumstances when the specific procedure to be performed would be ineffective in achieving the intent of the requirement (AU-C 200.26). The auditor must document (1) the justification for any departure and (2) how the alternative audit procedures performed were sufficient to achieve the intent of the requirement or policy (AU-C 230.13). The documentation must be provided to the reviewer in a timely manner to allow any issues to be promptly identified and resolved (see FAM 110.29c).[[14]](#footnote-14)
* **Generally should:** Compliance is strongly encouraged when the circumstances exist to which this policy is relevant. The auditor should discuss any departure with the assistant director (or equivalent, such as the audit manager in a public accounting firm) and document such discussions.
* **May, might, could:** These terms are used in the FAM to provide further explanation of and guidance for implementing audit requirements. Compliance is optional. The auditor need not document compliance.

Use of Technical Terms

The FAM uses many existing technical auditing terms and includes a glossary of significant terms at the end of volume I.

Reference to Sections of the FAM

When cited in audit documentation, correspondence, or other communication, “FAM” may precede section or paragraph numbers. For example, this paragraph is referred to as FAM 110.33.

1. The OMB audit guidance in effect as of the publication date of this version of the FAM is OMB Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements,* issued onOctober 19, 2023. OMB audit guidance is periodically updated, and the current version can be found on the OMB website at <https://www.whitehouse.gov/omb/information-for-agencies/bulletins/> (accessed June 3, 2024). [↑](#footnote-ref-1)
2. The American Institute of Certified Public Accountants (AICPA) has recognized the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards-setting body for federal government entities under the AICPA's *Code of Professional Conduct*. Thus, FASAB standards are recognized as U.S. GAAP for federal entities. Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, establishes the U.S. GAAP hierarchy for federal reporting entities. SFFAS 34 recognizes that it is appropriate for certain federal reporting entities to prepare and publish financial reports pursuant to the accounting and reporting standards issued by the Financial Accounting Standards Board (FASB). SFFAS 34 provides that financial statements prepared in conformity with accounting standards issued by FASB also may be regarded as in conformity with U.S. GAAP for such entities. SFFAS 47, *Reporting Entity,* allows consolidation entities (that is, the consolidated government-wide reporting entity or consolidated component reporting entity) to consolidate component or subcomponent reporting entity financial statements prepared in accordance with FASB under SFFAS 34 without conversion for any differences in accounting policies among the audit organizations. [↑](#footnote-ref-2)
3. Testing for substantial compliance with FFMIA’s three financial management systems requirements is efficiently accomplished, for the most part, as part of the work done in understanding entity systems in the internal control phase of the audit. [↑](#footnote-ref-3)
4. The methodology presented is for a financial statement audit. If the auditor is to use the work of another auditor, see FAM 600 sections. [↑](#footnote-ref-4)
5. For federal entities, the applicable financial reporting framework is generally U.S. GAAP. See FAM 110.02. [↑](#footnote-ref-5)
6. The FAM refers specifically to objectives for GAO auditors in various sections. Such objectives are optional for other audit organizations. [↑](#footnote-ref-6)
7. If the auditor plans to report on internal control effectiveness, AU-C 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, allows the auditor to express an opinion directly on internal control or on management’s assessment about the effectiveness of internal control over financial reporting. However, when internal control is not effective because one or more material weaknesses exist, the auditor is prohibited from expressing an opinion on management’s assessment and should report directly on the effectiveness of internal control over financial reporting. The example 1 auditor’s report in FAM 595 A illustrates expressing an opinion on internal control directly.

   Although the FAM distinguishes between internal control objectives related to reliability of financial reporting and to compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements, compliance controls tested as part of federal financial statement audits are limited to controls over compliance with selected significant provisions of laws, regulations, contracts, and grant agreements applicable to the entity that have a direct effect on the determination of material amounts and disclosures in the entity’s financial statements. Consequently, compliance controls in federal financial statement audits are considered to be the equivalent of financial reporting controls for purposes of reporting on control effectiveness. [↑](#footnote-ref-7)
8. GAO, *Government Auditing Standards: 2018 Revision*, [GAO-18-568G](https://www.gao.gov/products/gao-18-568g) (Washington, D.C.: July 2018). References to this document are noted as “GAGAS (2018)” in the FAM. There is a 2024 revision to GAGAS that is effective for periods beginning on or after December 15, 2025. Early implementation of this revision is permitted. [↑](#footnote-ref-8)
9. The OMB reporting guidance in effect as of the publication date of this version of the FAM is OMB Circular No. A-136, *Financial Reporting Requirements,* issued on May 30, 2024. OMB reporting guidance is updated annually and the current version can be found on the OMB website at <https://www.whitehouse.gov/omb/information-for-agencies/circulars/> (accessed June 3, 2024). [↑](#footnote-ref-9)
10. Under the Chief Financial Officers Act of 1990 (CFO Act), as amended, an IG may perform the agency’s financial statements audit with OIG staff or contract the audit to an independent external auditor (IPA firm). See FAM 670, IG Oversight of Audits Performed by Contracted IPA Firms, for details. [↑](#footnote-ref-10)
11. There are a few circumstances identified in the FAM where timely review of audit documentation by the reviewer at appropriate stages during the engagement is required to ensure the effectiveness and efficiency of the audit. Generally, timely manner in this context means after the engagement team makes a judgment or conclusion about an issue and before the judgment or conclusion is implemented or finalized. [↑](#footnote-ref-11)
12. App. V of GAO, *Federal Information System Controls Audit Manual (FISCAM)*, [GAO-09-232G](https://www.gao.gov/products/gao-09-232g) (Washington, D.C.: February 2009), provides examples of the knowledge, skills, and abilities that an IS controls auditor should possess. [↑](#footnote-ref-12)
13. Audit organizations obtain legal counsel in a variety of ways, and each audit organization’s OGC size and configuration can vary. In that regard, the designation of OGC in the FAM could include legal counsel in IG offices that employ or hire their own legal counsel as well as the entity’s legal counsel. [↑](#footnote-ref-13)
14. Similar to the AICPA auditing standards, if the FAM states that a procedure or action is one that the auditor should consider, determining whether to perform the procedure or action is required; however, performing the procedure or action is not. Because this is a “should,” the auditor should document any reasons for **not** performing this procedure and the alternative procedures performed to meet the objective. When the FAM lists factors that the auditor should evaluate when making a judgment, the auditor is expected to use these factors to make an informed judgment. However, the auditor may also consider other factors. [↑](#footnote-ref-14)