

## **2011 Government Auditing Standards Listing of Technical Changes**

Unless otherwise noted, numbers in parentheses refer to paragraphs in the 2011 *Government Auditing Standards* (GAGAS).

### **Effective Dates**

The 2011 GAGAS is effective for financial audits and attestation engagements for periods ending on or after December 15, 2012. It is effective for performance audits beginning on or after December 15, 2011. Early implementation is **not** permitted.

### **Change Related to Guidance for Government Auditing Standards**

The guidance provided in *Government Auditing Standards: Answers to Independence Standard Questions* (GAO-02-870G) will be superseded by the revised GAGAS General Standards contained in chapter 3 when they become effective.

### **Overall Changes**

Chapters 1 and 2 have been realigned. Along with the introduction, chapter 1 now includes the foundation and ethical principles of government auditing. The discussion of the use and application of GAGAS is now in chapter 2.

All financial audit standards are now in chapter 4. The chapters on financial audit field work and reporting, formerly chapters 4 and 5, have been combined into one chapter.

Consistency of the use of footnotes has been improved. Footnotes are now used strictly to refer to other sections of GAGAS and to other auditing standards. Other information that was in footnotes in previous GAGAS revisions has been either moved into the main text of GAGAS or deleted.

### **Changes Related to Government Auditing: Foundation and Ethical Principles**

Three definitions were incorporated into the text: (1.07)

- “Auditor” describes individuals performing work under GAGAS (including audits and attestation engagements) regardless of job title.
- “Audit organization” refers to government audit organizations as well as public accounting or other firms that perform audits and attestation engagements using GAGAS.
- “Audit” as it is used in chapters 1 through 3 and corresponding sections of the Appendix refers to financial audits, attestation engagements, and performance audits conducted in accordance with GAGAS.

Structural location of the audit function relative to the audited entity is discussed. (1.08-1.09)

- External audit organizations report to third parties externally.
- Internal audit organizations are accountable to senior management and those charged with governance and do not generally issue reports to third parties externally.
- Some government audit organizations represent a unique hybrid of external auditing and internal auditing in their oversight role for the entities they audit. These audit organizations often have a dual reporting responsibility to their legislative body as well as the agency head and management.

### **Changes Related to Standards for the Use and Application of GAGAS**

- Provided updated guidance and documentation requirements for departures from presumptively mandatory requirements. (2.15-2.16)
- Added guidance on the use of “interpretive publications,” issued by GAO, to provide guidance to auditors on the application of GAGAS in specific circumstances. Interpretive publications are not auditing standards, but have the same level of authority as application and other explanatory material in GAGAS. (2.18)
- The requirement that auditors use GAGAS as the prevailing standard if inconsistencies exist between GAGAS and other standards cited was removed (2007 GAGAS, 1.14), and clarification was made for citing both GAGAS and the use of other standards in the audit report. (2.22)
- The role of professional judgment in determining the appropriate type of GAGAS compliance statement was emphasized. (2.25)

### **Changes Related to Independence**

Specific references to personal, external, and organizational impairments, and the overarching principles for independence have been removed (GAGAS 2007, chapter 3). However, the underlying concepts related to these categories have been retained in the new conceptual framework for independence.

The periods of time during which an auditor must be free of impairments to independence were added. (3.05)

A conceptual framework for independence was added to provide a means for auditors to assess auditor independence for activities that are not expressly prohibited. The conceptual framework requires auditors to make independence determinations based on facts and circumstances that are often unique to specific audit environments. (3.07-3.26) The conceptual framework achieves further harmonization with AICPA and international standards, with additional considerations for government audits.

- Provided information on “threats” that could impair independence and “safeguards” that could mitigate threats, to assist with implementing the conceptual framework. (3.13-3.19)
- Included a detailed explanation of auditor independence which includes definitions of “Independence of Mind” and “Independence in Appearance.” (3.03)

- The term “audit organization” was defined for consideration of auditor independence to emphasize that offices or units of an audit organization, or related or affiliated organizations under common ownership, are not differentiated from one another when evaluating independence. (3.10)
- Emphasizes the importance of considering threats to independence both individually and in the aggregate. (3.20)
- Established requirements for auditors performing nonaudit services at entities they audit, including a requirement that auditors assess whether management possesses suitable skill, knowledge, or experience to oversee the nonaudit service and to document that assessment. (3.33-3.44)
- Substantially revised guidance on nonaudit services that always impair an auditor’s independence with respect to audited entities and on certain nonaudit services that may be permitted under appropriate conditions. (3.45-3.58)
- Requirements on documentation necessary to support adequate consideration of auditor independence (3.59) were added to include the following:
  - ♦ Threats to independence that require application of safeguards, and the safeguards applied to eliminate threats or reduce them to an acceptable level.
  - ♦ The safeguards required if an audit organization is structurally located within a government entity and is considered independent based on those safeguards (not an engagement-specific requirement).
  - ♦ Consideration of audited entity management’s ability to effectively oversee a nonaudit service to be provided by the auditor.
  - ♦ Understanding with an audited entity for which the auditor will perform a nonaudit service.
- Added a flowchart to assist the auditor’s application and understanding of the conceptual framework (Appendix II).

### **Change Related to Competence**

Clarified the auditors qualified to perform GAGAS financial audits and attestation engagements to include auditors in states with multi-class licensing systems that recognize licensed accountants other than CPAs. (3.75)

### **Changes Related to Continuing Professional Education**

The distinction between internal and external specialists was highlighted, and the CPE requirements for internal specialists were specified. Internal specialists consulting on a GAGAS engagement should be qualified and maintain professional competence in their areas of specialization but are not required to meet the GAGAS CPE requirements. As in previous revisions, internal specialists who are performing work under GAGAS should comply with GAGAS, including the CPE requirements. (3.79-3.81)

### **Changes Related to Systems of Quality Control**

Further harmonized quality control system requirements with the AICPA requirements, including communicating deficiencies noted and recommending remedial actions. (3.83-3.95)

### **Changes Related to Peer Reviews**

Revised the categories of peer review reports for consistency with AICPA: Pass, Pass with Deficiencies, and Fail. (3.101)

Included guidance on modifying peer review reports when the scope of the review is limited. (3.102)

Added a requirement for a detailed description of peer review findings, conclusions, and recommendations. (3.103)

### **Changes Related to Financial Audits**

Early communication of deficiencies has been emphasized. (4.48)

The documentation requirements related to communication of inconsequential internal control deficiencies and instances of noncompliance with provisions of contracts or grant agreements or abuse that do not warrant the attention of those charged with governance has been removed. (2007 GAGAS, 5.14 and 5.16)

Deleted the following paragraphs from GAGAS to eliminate redundancy with the AICPA standards:

- The discussion of reasonable assurance as it pertains to financial audits. (2007 GAGAS, 4.01)
- The requirement that audit organizations develop policies to address requests by outside parties to obtain access to audit documentation has been removed in response to indications that the requirement is of limited value on those rare occasions when the circumstances described occur. (2007 GAGAS, 4.24)
- Consideration of fraud and illegal acts. (2007 GAGAS, 4.27-4.28; emphasis only)
- Requirements for reporting on restatements. (2007 GAGAS, 5.26-6.31)
- Communication of significant matters. (2007 GAGAS, 5.23-5.26)
- The definitions of deficiencies in internal control. These are incorporated by reference to the AICPA SASs. (2007 GAGAS, 5.11; the 2011 revision includes updated language to reflect the changes in the SASs)
- Deleted the requirement to document the results of the work to the date of termination and why the audit was terminated (2007 GAGAS, 4.08). However, this requirement was retained for performance audits. (2011 GAGAS, 6.50)

## **Changes Related to Attestation Engagements**

Three categories of attestation engagements, (1) examination, (2) review, and (3) agreed-upon procedures engagements, are separately discussed. The new sections include specific requirements and considerations that apply to the type of engagement, depending on the level of service provided. Auditors are not permitted to deviate from the reporting elements prescribed by the AICPA.

For **examinations**, the fraud reporting threshold has been changed from “all instances unless inconsequential” to that which has a material effect on the subject matter or assertion about the subject matter or otherwise warrants the attention of those charged with governance. (5.20)

Auditors should include in the **examination** report deficiencies, even those communicated early, that are considered significant deficiencies or material weaknesses. (5.22)

Additional considerations have been added, which relate to:

- Early communication of deficiencies, as a consideration auditors may follow in the course of an **examination** engagement. (5.45b and 5.47)
- Establishing an understanding regarding services to be performed (**reviews and agreed-upon procedures**, 5.54-5.55 and 5.64-5.65)
- Reporting in accordance with AICPA standards (**reviews and agreed-upon procedures** 5.56-5.57 and 5.66-5.67)

Fieldwork requirements for internal control were removed. Procedures with respect to internal control differ according to the objectives of the attestation engagement.

Requirements in the following areas are no longer included for **review and agreed-upon procedures** engagements, although they remain for examinations. Auditors should note, however, that requirements in these areas may still exist in SSAEs or other sources. These requirements are incorporated into GAGAS by reference.

- Field Work
  - ♦ Auditor communication during planning
  - ♦ Previous audits and attestation engagements
  - ♦ Elements of a finding
  - ♦ Fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that could have a material effect on the subject matter
  - ♦ Documentation
- Reporting
  - ♦ Deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse
  - ♦ Views of responsible officials
  - ♦ Confidential or sensitive information

- Additional Considerations
  - ♦ Ongoing investigations or legal proceedings
  - ♦ Materiality

Several sections of the chapter have been removed because the related requirements are included in referenced material or were determined to be not consistently relevant or meaningful. Among the sections removed were:

- The AICPA general and field work standards for attestation engagements. The AICPA attestation standards are incorporated into GAGAS by reference. (2007 GAGAS, 6.03 and 6.04; 2011 GAGAS, 2.09)
- Deleted the requirement to document the results of the work to the date of termination and why the audit was terminated. However, this requirement was retained for performance audits. (2007 GAGAS, 6.08)
- The section on the role of an entity's internal control in planning an **examination** engagement. (2007 GAGAS, 6.10-6.12)
- For **examination** engagements, documentation requirements for several aspects of audit planning. (2007 GAGAS, 6.22d; documentation requirements for **reviews** and **agreed-upon procedures** are also not included as noted above)
- The requirement that audit organizations develop policies to address requests by outside parties to obtain access to audit documentation. (2007 GAGAS, 6.26)
- The AICPA reporting standards for attestation engagements. The AICPA attestation standards are incorporated into GAGAS by reference. (2007 GAGAS, 6.30; 2011 GAGAS, 2.09)
- The definitions of deficiencies in internal control. These are incorporated by reference to the AICPA attestation standards. (2007 GAGAS, 6.34)
- The documentation requirement related to communication of internal control deficiencies that have an inconsequential effect on the subject matter and violations of provisions of contracts or grant agreements or abuse that have an inconsequential effect on the subject matter. (2007 GAGAS, 6.35; 6.37)

### **Changes Related to Performance Audits**

The discussion of *validity* as an aspect of the quality of evidence has been revised to indicate that it is 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. (6.60b)

The discussion of the sufficiency and appropriateness of computer-processed information now indicates that the assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes. (6.66)

The auditor's responsibilities for communicating identified internal control deficiencies that are not significant to the audit have been clarified. Related documentation requirements and those

related to noncompliance with provisions of contracts or grant agreements or abuse that are not significant to the audit have been removed. (7.19, 7.22)

The fraud reporting requirement is now limited to occurrences that are significant within the context of the audit objectives (7.21), with a requirement to communicate in writing other instances of fraud that warrant the attention of those charged with governance. (7.22)

The requirement that audit organizations develop policies to address requests by outside parties to obtain access to audit documentation has been removed. (2007 GAGAS, 7.84)

Early communication of deficiencies has been added as a consideration auditors may follow in the course of the performance audit. (6.78)