

APPENDIX A

SUMMARY OF STATEMENT ON GOVERNMENT AUDITING STANDARDS

Excerpted from *Government Auditing Standards*, 2003 Revision, issued by the
Comptroller General of the United States.

Introduction

Purpose	<p>(1) This statement contains standards for audits of government organizations, programs, activities, and functions, and of government funds received by contractors, nonprofit organizations, and other nongovernment organizations.</p> <p>(2) The standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy.</p>
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Types of Government Audits

Financial Audits	<p><u>Financial statement audits</u> provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.</p>
Attestation Engagements	<p><u>Attestation Engagements</u> examine, review, or perform agreed-upon procedures on a subject matter or a management assertion about a subject matter and report the results.</p>

Types of Government Audits (Cont.)

Performance Audits	<p>(1) Economy and efficiency audits include determining (a) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.</p> <p>(2) Program audits include determining (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (b) the effectiveness of organizations, programs, activities, or functions, and (c) whether the entity has complied with laws and regulations applicable to the program.</p>
Other Activities of an Audit Organization	Auditors may perform services other than audits. For example, some auditors may (a) assist a legislative body by developing questions for use at hearings; (b) develop methods and approaches to be applied in evaluating a new or a proposed program; (c) forecast potential program outcomes under various assumptions without evaluating current operations; and (d) perform investigative work.

General Standards

Independence	In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
Professional Judgment	Professional judgment should be used in planning, performing and reporting audit results.
Competence	The staff assigned to conduct the audit should collectively possess adequate professional competence for the tasks required.
Quality Control and Assurance	Each audit organization performing audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external peer review.

Field Work Standards for Financial Audits

Planning	The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.
Follow-up of Previous Findings and Recommendations	Auditors should follow up on known significant findings and recommendations from previous audits that directly relate to the objectives of the audit being undertaken.
Irregularities, Illegal Acts, and Other Noncompliance	<p>(a) Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.</p> <p>(b) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.</p> <p>(c) Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.</p> <p>(d) Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.</p>

Field Work Standards for Financial Audits (Cont.)

Documentation	<p>(a) Auditors are required to prepare and maintain audit documentation.</p> <p>(b) Audit documentation should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.</p>
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Reporting Standards for Financial Audits

Reporting Compliance with Generally Accepted Government Auditing Standards	Audit reports should state that the audit was made in accordance with generally accepted government auditing standards.
Reporting on Internal Control and on Compliance with Laws and Regulations	The report on the financial statements should either (1) describe the scope of the auditors' testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance, and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.
Privileged and Confidential Information	If certain pertinent information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

Reporting Standards for Financial Audits (Cont.)

Report Distribution	Audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.
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Field Work Standards for Performance Audits

Planning	Work is to be adequately planned. In planning, auditors should define the audit's objectives and the scope and methodology to achieve those objectives.
Compliance with Laws and Regulations	When laws, regulations, and other compliance requirements are significant to audit objectives auditors should design the audit to provide reasonable assurance about compliance with them. In all performance audits, auditors should be alert to situations or transactions that could be indicative of illegal acts or abuse.
Supervision	Staff are to be properly supervised. Supervision involves directing the efforts of auditors and others who are involved in the audit to determine whether the audit objectives are being accomplished. Elements of supervision include instructing staff members, keeping informed of significant problems encountered, reviewing the work performed, and providing effective on-the-job training.

Field Work Standards for Performance Audits (Cont.)

Evidence	Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions. A record of the auditors' work should be retained in the form of working papers. Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments.
Validity and Reliability of Data From Computer-Based Systems	Auditors should obtain sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when those data are significant to the auditors' findings. This work is necessary regardless of whether the data are provided to auditors or auditors independently extract them. Auditors should determine if other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data. If they have, auditors may be able to use that work. If not, auditors may determine the validity and reliability of computer-processed data by direct tests of the data. Auditors can reduce the direct tests of the data if they test the effectiveness of general and application controls over computer-processed data, and these tests support the conclusion that the controls are effective.

Reporting Standards for Performance Audits

Form	Auditors should prepare audit reports communicating the results of each audit. Reports (1) communicate the results of audits to officials at all levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government programs demands that audit reports be retrievable.
Objectives, Scope, and Methodology	Auditors should report the audit objectives and the audit scope and methodology.
Audit Conclusions	Auditors should report significant audit findings and auditors' conclusions when called for by the audit objectives and the results of the audit.
Recommendations	Auditors should make recommendations for actions to correct problem areas and to improve operations.

Reporting Standards for Performance Audits (Cont.)

Statement on Auditing Standards	Auditors should report that the audit was made in accordance with generally accepted government auditing standards.
Compliance With Laws and Regulations	Auditors should report all significant instances of noncompliance and all significant instances of abuse that were found during or in connection with the audit. In some circumstances, auditors should report illegal acts directly to parties external to the audited entity.
Views of Responsible Officials	Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations, as well as corrections planned.
Privileged and Confidential Information	If certain information is prohibited from general disclosure, auditors should report the nature of the information omitted and the requirement that makes the omission necessary.
Report Quality Elements	The report should be timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits.
Report Distribution	Audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

