

Major Changes

July 2007 Revision to Government Auditing Standards

This listing provides major changes from the 2003 Revision of *Government Auditing Standards*.

Overall Changes

- Reinforced the key role of auditing in maintaining accountability and providing information for making improvements in government operations. (Para. 1.01 and 1.02)
- Clarified the standards through standardized language to define the auditor's level of responsibility and distinguish between auditor requirements and guidance/explanatory material. This approach is consistent with that being used by other auditing standard-setters. (Para. 1.05 through 1.10)
- Clarified and expanded the standards to recognize that other sets of professional standards, such as those issued by the Public Company Accounting Oversight Board (PCAOB), the International Auditing and Assurance Standards Board (IAASB), and the Institute of Internal Auditors (IIA) can be used in conjunction with GAGAS. (Para. 1.14 through 1.16)

Changes Related to Ethics and Independence

- Heightened emphasis on ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including a description of five key ethical principles that guide the work of those who conduct audits in accordance with GAGAS. (Chapter 2 is devoted entirely to ethical principles.)
- Clarified and streamlined the discussion of professional services other than audit and attestation engagements (nonaudit services) and their impact on auditor independence by reorganizing the discussion and related examples into three distinct categories of nonaudit services. (Para. 3.25 through 3.30)
- Added guidance on actions required if an impairment to independence is identified after the audit report is issued. (Para. 3.06)

Changes Related to Professional Judgment and Competence

- Stressed the critical role of professional judgment in all aspects of GAGAS audits, in considering risk, and in complying with GAGAS overall. (Para. 3.31 through 3.39)
- Expanded the description of competence to emphasize its importance and relate it to key steps in performing an audit and reporting the findings and conclusions. (Para. 3.40 through 3.49)
- Incorporated the revised CPE requirements that were issued by GAO in April 2005 (GAO-05-568G). Under these requirements
 - All auditors who perform work under GAGAS should complete every 2 years at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.
 - Auditors involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every two-year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period. (Para. 3.46 and 3.47)
- Clarified the CPE requirement to include internal specialists who are part of the audit organization and perform as a member of the team. (Para. 3.49)

Changes Related to Quality Control and Assurance

- Clarified that an audit organization's noncompliance with the peer review requirements results in a modified GAGAS statement, while the audit organization's compliance (or noncompliance) with the requirements for a system of quality control are tested and reported on as part of the peer review process and do not impact the GAGAS compliance statement. (Para. 3.50)
- Clarified that an audit organization's system of quality control should also provide reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. (Para. 3.50a)

- Clarified that the GAGAS requirements for a system of quality control are consistent with the AICPA proposed statement on Quality Control Standards, except that the GAGAS requirements state that reviews of the work and the report that are performed as part of supervision are not monitoring controls when used alone. (Para. 3.51 and 3.54)
- Added a requirement for an audit organization to include policies and procedures in its system of quality control that collectively address (a) leadership responsibilities for quality within the audit organization, (b) independence, legal, and ethical requirements, (c) initiation, acceptance, and continuance of audit and attestation engagements, (d) human resources, (e) audit and attestation engagement performance, documentation, and reporting, and (f) monitoring of quality. (Para. 3.53)
- Added a requirement for audit organizations to analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. (Para. 3.54)
- Added a requirement for external audit organizations to make peer review reports publicly available and for internal audit organizations to provide a copy to those charged with governance. (Para. 3.61)

Changes Related to All Types of GAGAS Audits and Attestation Engagements

- Added guidance on citing GAGAS in the audit report. (Para. 1.11 through 1.13)
- Defined those charged with governance consistent with AICPA SAS No. 114, *The Auditor's Communication With Those Charged With Governance* (Para. 4.06, 6.07, 7.46, and A1.05 through A1.07)
- Added a requirement that the audit organization establish information systems controls concerning accessing and updating electronically maintained audit documentation. (Para. 4.22, 6.24, and 7.82)
- Clarified reporting requirements for internal control deficiencies, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. (for financial audits, Para. 5.10 through 5.22; for attestation engagements, Para. 6.33 through 6.43; for performance audits, Para. 8.19 through 8.26)

- Clarified and streamlined the following areas:
 - auditors' responsibility for designing the audit to detect violations of legal and regulatory requirements, provisions of contracts or grant agreements, and fraud. (for financial audits, Para. 4.10 and 4.11; for attestation engagements, Para. 6.13a and b; for performance audits, Para. 7.28 through 7.32; Appendix guidance, Para. A.09 through A.11),
 - auditors' responsibility in field work and reporting for abuse. (for financial audits, Para. 4.12 through 4.13 and 5.15 through 5.17; for attestation engagements, Para. 6.13c and 6.14, and 6.36 through 6.38; for performance audits, Para. 7.33 and 7.34, and 8.21 through 8.23; Appendix guidance, Para. A.05),
 - requirements and guidance for developing elements of a finding. (for financial audits, Para. 4.14 through 4.18; for attestation engagements, Para. 6.15 through 6.19; for performance audits, Para. 7.72 through 7.76),
 - reporting views of responsible officials and for issuing and distributing reports. (for financial audits, Para. 5.32 through 5.38, and 5.44; for attestation engagements, Para. 6.44 through 6.50, and 6.56; for performance audits, Para. 8.32 through 8.37, and 8.43), and
 - reporting confidential or sensitive information. (for financial audits, Para. 5.39 through 5.43; for attestation engagements, Para. 6.51 through 6.55; for performance audits, Para. 8.38 through 8.42).

Changes Related to Internal Auditors

- Encouraged internal auditors to use IIA standards in conjunction with GAGAS (Para. 3.16)
- Modernized the criteria for organizational independence for internal audit functions to include
 - Reporting audit results to those charged with governance (Para. 3.16b)
 - Access to those charged with governance (Para. 3.16d)
 - Sufficiently removed from political pressures (Para. 3.16e)
- Emphasized the importance of internal audit as part of the overall governance, accountability, and internal control, and that auditors may use the work of internal auditors in assessing whether internal controls are effectively designed and operating effectively. (Para. 7.22)
- Clarified report distribution standard by stating that internal auditors may follow IIA standards. Under GAGAS and IIA standards, the head of the internal audit organization should communicate results of the audit to parties who can ensure

that the results are given due consideration and take steps to take prior to releasing results to parties outside the organization. (for financial audits, Para. 5.44b; for attestation engagements, Para. 6.56b; for performance audits, Para. 8.43b)

Changes Related to Financial Audits

- Updated the financial auditing standards based on recent developments in financial auditing and internal control including
 - Aligning the audit documentation standard with AICPA SAS No. 103, *Audit Documentation* (Para. 4.19), and
 - Defining internal control deficiencies to be consistent with AICPA SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (Para. 5.11 and 5.12).
- Clarified that professional judgment is used in determining whether and how to communicate deficiencies in internal control that are not significant deficiencies. (Para. 5.14)
- Added requirements for reporting on the restatement of previously-issued financial statements. (Para. 5.26 through 5.31)
- Encouraged communicating in the audit report significant concerns, uncertainties or other unusual or catastrophic events that could have a significant impact on the financial condition or operations of a government entity or program for financial audits. (Para. 5.23 through 5.25)

Changes Related to Attestation Engagements

- Clarified and revised the description of attestation engagements and included additional examples of types of attestation engagements. (Para. 1.23 and 1.24)
- Conformed attestation engagements standards and guidance for consistency with changes in financial audits. (Chapter 6)

Changes Related to Performance Audits

- Clarified and revised the definition of performance audits and included additional examples of types of performance audits. (Para. 1.25 through 1.32)
- Enhanced performance auditing standards to elaborate on the overall framework for high-quality performance audits, including
 - Defining the level of assurance associated with a performance audit as providing reasonable assurance that auditors have sufficient, appropriate evidence to achieve the audit objectives and support findings and conclusions (Para. 7.03),
 - Adding a section on the concept of significance (Para. 7.04), and
 - Adding a section on audit risk and specifically adding risk as a factor to be used in planning and evaluation of the evidence (Para. 7.05 and 7.07).
- Clarified auditors' responsibilities for internal control in performance audits based on significance to the audit objectives. (Para. 7.16)
- Added a section on information systems controls for the purpose of assessing audit risk and planning the audit. (Para. 7.23 through 7.27)
- Added a section describing the overall assessment that auditors perform to evaluate the sufficiency and appropriateness of the collective evidence to provide a reasonable basis for the findings and conclusions. (Para. 7.68 through 7.71)
- Added requirements and guidance for auditors to follow in situations when they subsequently discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions. (Para. 8.07)
- Enhanced the statement in the audit report for reporting compliance with GAGAS in performance audits. (Para. 8.30)

Changes Related to Guidance Material

- Added an appendix to provide supplemental guidance to assist auditors in the implementation of GAGAS. This guidance does not establish additional GAGAS requirements but includes additional information intended to assist auditors in the following areas:
 - Examples of deficiencies in internal control, abuse and indicators of fraud risk (Para. A.03 and A.04, A.05 and A.06, A.07 and A.08),
 - Guidance for determining whether laws, regulations, or provisions of contract or grant agreements are significant within the context of the audit objectives (Para. A.09 through A.11),
 - Laws, regulations, and guidelines that require use of GAGAS (Para. A1.02 through A1.04),
 - The Role of Those Charged with Governance in Accountability (Para. A1.05 through A1.07),
 - Management's Role in Accountability (Para. A1.08),
 - Examples of nonaudit services frequently provided by audit organizations in government entities (A3.02 and A3.03),
 - Guidance for establishing policies and procedures in the audit organization's system of quality control to address (1) audit and attestation engagement performance, documentation, and reporting, and (2) monitoring of quality. (Para. A3.04)
 - Guidance and examples for publicly available peer review reports to be useful and understandable to the public, such as an audit organization including a description of the peer review process and how it applies to the organization. (Para. A3.05)
 - Description of different types of evidence and the evaluation of its appropriateness in relation to the audit objectives (Para. A7.02 and A7.03), and
 - Performance audit report quality elements (Para. A8.02).