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Standards For Audit Of Governmental Organizations, Programs, Activities, And Functions

BY THE
COMPTROLLER
GENERAL
OF THE
UNITED STATES



1981 Revision



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Foreword

During the 1960s both the number and dollar amounts of government programs increased substantially. These programs were aimed at improving the quality of American life. In the 1970s the number of new programs established was considerably less, but the total dollar amount continued to grow. This increase in government programs brought with it an increased demand for full accountability by those entrusted with the responsibility for administering the programs. Auditing is an integral element of this accountability, and governments are responsible for ensuring that appropriate audits are made.

In the past few years, we have seen an unprecedented interest in government auditing. Public officials, legislators, and private citizens want and need to know not only whether government funds are handled properly and in compliance with laws and regulations, but also whether government organizations are achieving the purposes for which programs were authorized and funded and are doing so economically and efficiently.

Forty years ago auditors concentrated most of their efforts on auditing the vouchers which supported expenditures. But today, auditors are also concerned with the economy, efficiency, and effectiveness of government operations.

Auditing plays an important role in government since it is a management tool for evaluating whether operations are executed economically, efficiently, and effectively. While it is true that auditors have the responsibility to evaluate government operations, management cannot and should not completely rely on the auditors to detect problems and recommend solutions. The auditors cannot do it all. Therefore government managers, as part of their management responsibility, must routinely assess their own operations to assure themselves, their superiors, legislators, and private citizens that operations are well controlled and meet high expectations. If problems are found, by the auditor or by management, it is management's responsibility to act promptly and properly to initiate corrective action.

In 1972 the U.S. General Accounting Office (GAO) issued "Standards for Audit of Governmental Organizations, Programs, Activities & Functions," better known as the "yellow book." Since issuing the standards, GAO has issued publications explaining and supplementing the standards and demonstrating how auditing can improve the efficiency and effectiveness of government operations and programs. These publications are identified on the inside of the front cover.

The standards as issued in 1972 have proved to be sound and durable and have been generally accepted by all levels of government as well as by the accounting profession. The Office of Management and Budget (OMB) has cited the standards in OMB circulars as basic audit criteria for Federal executive departments and agencies to follow. Also, Federal legislation requires that the inspectors general follow the standards.

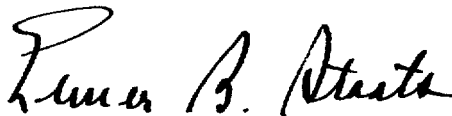
These standards have been revised in order to:

1. Expand the explanations of some standards in response to questions about them.
2. Separate the standards for financial and compliance audits from those for economy and efficiency audits and program results audits.
3. Incorporate standards relating to audits in which automatic data processing systems are used by the entity.
4. Add a standard to make more specific the auditor's responsibility for detecting fraud and abuse in government programs and operations.

This revision of the standards is based on comments and suggestions that GAO has received since the standards were originally issued. These comments and suggestions were considered in preparing a draft of the revised standards which was sent to audit officials at all levels of government, the public accounting profession, professional organizations, academia, and other interested groups and persons for review and comment. The comments received were reviewed and incorporated as appropriate in these final revised standards.

We are grateful to those government officials, professional organizations, public accounting officials, and members of the academic community who have commented on the standards.

This edition of the standards supersedes the 1972 and 1974 editions of the standards and the March 1979 booklet entitled "Additional GAO Audit Standards, Auditing Computer-Based Systems."



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February 27, 1981

Contents

	Page
Foreword	i
<i>Chapter</i>	
I Introduction	1
II Summary of Standards	6
A. Scope of audit work	6
B. General standards	6
C. Examination and evaluation (field work) and reporting standards—financial and compliance audits	7
D. Examination and evaluation standards—economy and efficiency audits and program results audits	8
E. Reporting standards—economy and efficiency audits and program results audits	9
III Scope of Audit Work	12
IV General Standards	16
A. Qualifications	16
B. Independence	17
C. Due professional care	21
D. Scope impairments	23
V Examination and Evaluation (Field Work) and Reporting Standards—Financial and Compliance Audits	24
A. AICPA statements on auditing standards	24
B. Additional standards and requirements	24

<i>VI</i>	Examination and Evaluation Standards—Economy and Efficiency Audits and Program Results Audits	32
	A. Planning	32
	B. Supervision	36
	C. Legal and regulatory requirements	37
	D. Internal control	38
	E. Auditing computer-based systems	40
	F. Evidence	44
	G. Fraud, abuse, and illegal acts	47
<i>VII</i>	Reporting Standards—Economy and Efficiency Audits and Program Results Audits	48
	A. Form	48
	B. Distribution	48
	C. Timeliness	49
	D. Report content	49
	E. Report presentation	54
<i>Appendix</i>		
<i>I</i>	Auditing Computer-Based Systems: Auditor’s Role During System Design and Development	57
	Glossary	63
	Index	73

Purpose

This statement contains audit standards that must be followed by Federal auditors for audits of Federal organizations, programs, activities, functions, and funds received by contractors, nonprofit organizations, and other external organizations. They are recommended for audits of State and local government organizations, programs, activities, and functions performed by State or local government auditors or by public accountants.¹ These standards relate to the scope and quality of audit effort and to the characteristics of professional and meaningful audit reports.

The American Institute of Certified Public Accountants (AICPA) has adopted standards and procedures that are applicable to audits performed to express opinions on the fairness with which an organization's financial statements present the financial position, the results of operations, and changes in financial position, if applicable.²

The AICPA standards are generally accepted for such audits and have been incorporated into this statement. As additional "statements on auditing standards" (SAS) and other pronouncements are issued by the AICPA, they should be adopted and incorporated into these standards unless GAO excludes them by formal announcement. GAO will also establish a formal system for issuing government auditing pronouncements, interpretations, and guidance to the audit community. However, the interests of many users of reports on government audits are broader than those that can be satisfied by financial audits. To fulfill these broader interests, the standards in this statement include not only the essence of those prescribed by AICPA but additional standards for audits of an expanded scope, as we will explain.

The Office of Management and Budget (OMB) included these standards as basic audit criteria for Federal executive departments and agencies in OMB Circular A-73.³ Additional guidance to Federal agencies is contained in the GAO publication entitled, "Internal Auditing in Federal Agencies." Also, Federal legislation requires that the inspectors general comply with audit standards established by the Comptroller General for audits of Federal establishments, organizations,

¹ See Attachment P of OMB Circular A-102 (revised Oct. 22, 1979) "Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments." This attachment establishes audit requirements for State and local governments and Indian tribal governments that receive Federal assistance. It requires that audits of these entities be made in accordance with the standards in this statement.

² The basic standards are included in "Codification of Statements on Auditing Standards, Nos. 1 to 33," issued in 1981 by AICPA.

³ See section 6 of OMB Circular No. A-73 (revised Mar. 15, 1978), "Audit of Federal Operations and Programs."

programs, activities, and functions. The legislation further states that the inspectors general should ensure that any work performed by non-Federal auditors of Federal organizations, programs, activities, and functions complies with these standards.⁴

Several State and local audit organizations have also officially adopted these standards, and in 1978 the Institute of Internal Auditors issued standards which were compatible with these.⁵

These standards, as originally issued, were reviewed by an AICPA committee. The committee's report stated:

"The members of this Committee agree with the philosophy and objectives advocated by the GAO in its standards and believe that the GAO's broadened definition of auditing is a logical and worthwhile continuation of the evolution and growth of the auditing discipline."⁶

In 1977, AICPA's Management Advisory Services published guidelines for certified public accountant participation in government audit engagements.⁷ The guidelines indicated that public accountants engaged to perform a government audit in accordance with GAO standards may be expected to do far more than in the past. The public accountant will be called upon to use not only his financial auditing and accounting skills, but a variety of other skills as well. Further, the standards had been written for government audit agencies as well as public accounting firms.

Scope

Our system of government today rests on an elaborate structure of interlocking relationships among all levels of government for managing public programs. Those officials and employees who manage the programs must render a full account of their activities to the public. While not always specified by law, this accountability is inherent in the governing processes of this Nation.

⁴ See: *Public Law 95-452, Section 4(b), Oct. 12, 1978; Public Law 96-88, Section 508(n), Oct. 17, 1979; Public Law 96-226, Sections 201 and 202, Apr. 3, 1980; Public Law 96-465, Section 209(c), Oct. 17, 1980.*

⁵ "Standards for the Professional Practice of Internal Auditing," *The Institute of Internal Auditors, Inc., copyright 1978.*

⁶ "Auditing Standards Established by the GAO—Their Meaning and Significance for CPAs, A Report," *AICPA Committee on Relations with the General Accounting Office, New York, 1973, p. 12.*

⁷ "Guidelines for CPA Participation in Government Audit Engagements To Evaluate Economy, Efficiency, and Program Results," *AICPA Management Advisory Services, Guideline Series No. 6, 1977.*

The requirement for accountability has caused a demand for more information about government programs. Public officials, legislators, and private citizens want and need to know not only whether government funds are handled properly and in compliance with laws and regulations, but also whether government organizations are achieving the purposes for which programs were authorized and funded and are doing so economically and efficiently.

These standards provide for an expanded scope of audit to help ensure full accountability and assist government officials and employees in carrying out their responsibilities.

The three elements of expanded scope auditing are:

1. *Financial and compliance*—determines (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
2. *Economy and efficiency*—determines (a) whether the entity is managing and utilizing its resources (such as personnel, property, 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.
3. *Program results*—determines (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

The audit standards are more than the mere codification of current practices, tailored to existing audit capabilities. They include concepts and areas of audit coverage which are still evolving and are vital to the accountability objectives sought in auditing governments and their programs.

An audit of a government entity may include all three elements or only one or two. It is not intended or even feasible or desirable that every audit include all three. The expanded scope audit should not be conducted routinely, but instead selected when it will meet the needs of expected users of the audit results.

The above expansion of the definition of “auditing” highlights the importance of a clear understanding of the audit scope by all interested parties. This takes on added importance when a public accountant is engaged to perform the audits. The

engagement agreement between a government unit and the public accountant should specify the scope of the work to be done as defined in the standards, to avoid misunderstandings.

A government auditor or public accountant may be called upon to perform services for purposes other than audit. For example, an auditor might be asked to gather information about a given program or an activity without reaching conclusions about performance or attesting to the information's reliability. The audit standards in this statement should be followed to the extent possible in performing these services. As a minimum, auditors should collectively possess adequate professional proficiency for the task required and exercise due professional care.

Although the first element of an expanded scope audit is called financial and compliance, the other two also include compliance items. These aspects of government auditing are discussed in chapter III.

Basic Premises

The following premises underlie these standards and were considered in their development.

1. The term "audit" is used to describe not only work done by accountants and auditors in examining financial statements but also work done in reviewing (a) compliance with applicable laws and regulations, (b) economy and efficiency of operations, and (c) effectiveness in achieving program results.
2. Public office carries with it the responsibility to apply resources efficiently, economically, and effectively to achieve the purposes for which the resources were furnished. This responsibility applies to all resources, whether entrusted to public officials by their own constituency or by other levels of government.
3. Public officials are accountable both to other levels of government for the resources provided to carry out government programs and to the public. Consequently they should provide appropriate reports to those to whom they are accountable. Unless legal restrictions, ethical considerations, or other valid reasons prevent them from doing so, audit organizations should make audit findings available to the public and to other levels of government that have supplied resources.
4. Financial and compliance auditing is an important part of the accountability process since it provides independent opinions on whether the entities'

financial statements present fairly the results of financial operations. Economy and efficiency audits and program results audits can assist government operations by identifying needed improvements.

5. The interests of individual governments in many financially assisted programs often cannot be isolated because the resources applied have been commingled. Different levels of government share common interests in many programs. Therefore, an audit should to the extent practicable be designed to satisfy both the common and discrete accountability interests of each contributing government.
6. Cooperation by Federal, State, and local governments in auditing programs of common interest with a minimum of duplication benefits all concerned and is a practical method of auditing intergovernmental operations.
7. Auditors should rely upon the work of other auditors to the extent feasible if they satisfy themselves as to the other auditors' independence, capability, and performance by appropriate tests of their work or by other acceptable methods.⁸

An assumption underlying all the standards is that governments will cooperate in making audits in which they have mutual interests. This is especially true when one government receives funds from several others and each has a continuing need for a basic financial and compliance audit. In these circumstances, audits should be made on an organizationwide basis whenever possible, rather than on a grant-by-grant basis, and in a manner that will satisfy the audit needs of the participating governments.⁹

⁸ *Quality assessment guidelines for audit organizations have been developed by the AICPA (Statement 1 on Quality Control Standards). Also, the intergovernmental audit forums have developed similar guidelines for audit organizations.*

⁹ *See footnote 1, on page 1.*

The standards are summarized below and are explained and discussed in detail in chapters III through VII.

A. Scope of Audit Work

The expanded scope of auditing a government organization, a program, an activity, or a function should include:

1. *Financial and compliance*—determines (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
2. *Economy and efficiency*—determines (a) whether the entity is managing and utilizing its resources (such as personnel, property, 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.
3. *Program results*—determines (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

In determining the scope for a particular audit, responsible audit and entity officials should consider the needs of the potential users of audit findings.

B. General Standards

1. **Qualifications:** The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.
2. **Independence:** In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.
3. **Due professional care:** Due professional care is to be used in conducting the audit and in preparing related reports.

4. **Scope impairments:** When factors external to the audit organization and the auditor restrict the audit or interfere with the auditor's ability to form objective opinions and conclusions, the auditor should attempt to remove the limitation or, failing that, report the limitation.

C. Examination and Evaluation (Field Work) and Reporting Standards for Financial and Compliance Audits

1. AICPA Statements on Auditing Standards for field work and reporting are adopted and incorporated in this statement for government financial and compliance audits. Future statements should be adopted and incorporated, unless GAO excludes them by formal announcement.
2. Additional standards and requirements for government financial and compliance audits.
 - a. Standards on examination and evaluation:
 - (1) Planning shall include consideration of the requirements of all levels of government.
 - (2) A review is to be made of compliance with applicable laws and regulations.
 - (3) A written record of the auditors' work shall be retained in the form of working papers.
 - (4) Auditors shall be alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts and if such evidence exists, extend audit steps and procedures to identify the effect on the entity's financial statements.
 - b. Standards on reporting:
 - (1) Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

- (2) A statement in the auditors' report that the examination was made in accordance with generally accepted government auditing standards for financial and compliance audits will be acceptable language to indicate that the audit was made in accordance with these standards. (See ch. V, par. 2b for AICPA-suggested language.)
- (3) Either the auditors' report on the entity's financial statements or a separate report shall contain a statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. It shall also include material instances of noncompliance and instances or indications of fraud, abuse, or illegal acts found during or in connection with the audit.
- (4) The auditors shall report on their study and evaluation of internal accounting controls made as part of the financial and compliance audit. They shall identify as a minimum: (a) the entity's significant internal accounting controls, (b) the controls identified that were evaluated, (c) the controls identified that were not evaluated (the auditor may satisfy this requirement by identifying any significant classes of transactions and related assets not included in the study and evaluation), and (d) the material weaknesses identified as a result of the evaluation.
- (5) Either the auditors' report on the entity's financial statements or a separate report shall contain any other material deficiency findings identified during the audit not covered in (3) above.
- (6) If certain information is prohibited from general disclosure, the report shall state the nature of the information omitted and the requirement that makes the omission necessary.

D. Examination and Evaluation Standards For Economy and Efficiency Audits and Program Results Audits

1. Work is to be adequately planned.
2. Assistants are to be properly supervised.
3. A review is to be made of compliance with applicable laws and regulations.
4. During the audit a study and evaluation shall be made of the internal control system (administrative controls) applicable to the organization, program,

activity, or function under audit.

5. When audits involve computer-based systems, the auditors shall:
 - a. Review general controls in data processing systems to determine whether (1) the controls have been designed according to management direction and known legal requirements and (2) the controls are operating effectively to provide reliability of, and security over, the data being processed.
 - b. Review application controls of installed data processing applications upon which the auditor is relying to assess their reliability in processing data in a timely, accurate, and complete manner.
6. Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' judgments and conclusions regarding the organization, program, activity, or function under audit. A written record of the auditors' work shall be retained in the form of working papers.
7. The auditors shall:
 - a. Be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts.
 - b. If such evidence exists, extend audit steps and procedures to identify the effect on the entity's operations and programs.

E. Reporting Standards For Economy and Efficiency Audits and Program Results Audits

1. Written audit reports are to be prepared giving the results of each government audit.
2. Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action 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.

3. Reports are to be issued on or before the dates specified by law, regulation, or other special arrangement. Reports are to be issued promptly so as to make the information available for timely use by management and by legislative officials.
4. The report shall include:
 - a. A description of the scope and objectives of the audit.
 - b. A statement that the audit (economy and efficiency or program results) was made in accordance with generally accepted government auditing standards.
 - c. A description of material weaknesses found in the internal control system (administrative controls).
 - d. A statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. This should include significant instances of noncompliance and instances of or indications of fraud, abuse, or illegal acts found during or in connection with the audit. However, fraud, abuse, or illegal acts normally should be covered in a separate report, thus permitting the overall report to be released to the public.
 - e. Recommendations for actions to improve problem areas noted in the audit and to improve operations. The underlying causes of problems reported should be included to assist in implementing corrective actions.
 - f. Pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditors' findings, conclusions, and recommendations. When possible their views should be obtained in writing.
 - g. A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.
 - h. A listing of any issues and questions needing further study and consideration.
 - i. A statement as to whether any pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which

it is withheld should be stated. If a separate report was issued containing this information it should be indicated in the report.

5. The report shall:
 - a. Present factual data accurately and fairly. Include only information, findings, and conclusions that are adequately supported by sufficient evidence in the auditors' working papers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness.
 - b. Present findings and conclusions in a convincing manner.
 - c. Be objective.
 - d. Be written in language as clear and simple as the subject matter permits.
 - e. Be concise but, at the same time, clear enough to be understood by users.
 - f. Present factual data completely to fully inform the users.
 - g. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in a balanced perspective considering any unusual difficulties or circumstances faced by the operating officials concerned.

The scope of audit work standard for government auditing is:

- **Expanded scope auditing of government organizations, programs, activities, and functions should encompass the following elements:¹**
 1. ***Financial and compliance***—determines (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
 2. ***Economy and efficiency***—determines (a) whether the entity is managing and utilizing its resources (such as personnel, property, 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.
 3. ***Program results***—determines (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

This standard places on audit officials or entity officials, who authorize and prescribe the scopes of government audits, the responsibility for providing for audit work that is broad enough to fulfill the needs of all potential users of the audit findings. Not every audit requires all three elements to be performed. In some instances, the financial and related financial compliance aspects may be the only concern; in others, economy and efficiency or program results elements may be covered. Thus the standards apply to each element and are therefore equally applicable to audits of fewer than all three elements.² However, those contracting

¹ One problem which adds confusion to government auditing is the lack of standard terminology, especially concerning the types of audits. For example, the last two elements of "expanded scope auditing," as described in this statement, are referred to by several other terms, such as "effectiveness auditing," "management auditing," "operational auditing," "performance auditing," and "compliance auditing." The terms used in this statement should be used in audit reports to avoid misunderstanding.

² Auditors also conduct audits that cannot be clearly classified under only one of the three elements. For example, auditors conduct audits of government contracts and grants with private as well as government and nonprofit organizations. These—commonly referred to as "contract audits," or "comprehensive grant audits"—include some aspects of financial and compliance audits as well as economy and efficiency audits. Accordingly, these standards should be followed. A government auditor or a public accountant may also be called upon to provide services other than audit to a government. For example, the auditor might be engaged simply to gather information and data—without identifying condition, criteria, cause, and effect (basic finding attributes; see ch. VII, footnote 1)—about a given activity or program to help management carry out its duties. The standards in this statement should be followed to the extent possible in performing such services. As a minimum, auditors should collectively possess adequate professional proficiency for the task required and exercise due professional care.

for such audits should be advised that the needs of government may not be fully met unless audits within each of the three elements are performed over a period of time.³ The audit report should clearly identify the elements covered.

While the first element includes an evaluation of compliance with laws and regulations, compliance auditing also applies to economy and efficiency and program results audits.

The nature and purpose of the review of compliance with laws and regulations varies with the audit element being performed.

Financial and compliance—The auditor shall determine whether there is compliance with laws and regulations that could materially affect the entity's financial statements.

Economy and efficiency—The auditor shall determine whether there is compliance with laws and regulations that could significantly affect the acquisition, management, and utilization of the entity's resources.

Program results—The auditor shall determine whether programs are being carried out in conformity with laws and regulations.

In government audits the compliance aspect takes on an added significance because there are more compliance requirements to check. Therefore, it is important in planning audit coverage that the compliance requirements to be included are determined prior to the start of the audit. This is especially true in financial audits since the entity's financial position and statements could be affected. See chapter V for further discussion.

The general objectives of expanded scope auditing are:

1. *Financial and compliance*. An examination shall include sufficient work to determine whether:
 - a. The financial statements present fairly the financial position and the results of financial operations.
 - b. The entity is complying with laws and regulations which if not followed could materially affect its financial statements.

³ A period of time (normal audit cycle) is defined by the audit organization: 1-year, 2-year, etc.

2. *Economy and efficiency.* The auditor may, where appropriate, consider whether the entity:
 - a. Is following sound procurement practices.
 - b. Is following proper procedures to ensure that the needed type, quality, and amount of items are available and are properly used and maintained.
 - c. Avoids duplication of effort by employees.
 - d. Avoids work that serves little or no purpose.
 - e. Avoids overstaffing.
 - f. Uses efficient operating procedures.

Because “economy” and “efficiency” are both relative terms, it is not possible for an auditor to express an opinion on whether an entity has reached the maximum practicable level of either. Therefore these standards do not contemplate that the auditor will be called upon to give an opinion on this. Rather, the auditor should report findings and conclusions on specific processes, methods, or activities that can be made more efficient or economical and should recommend improvements.

3. *Program results.* The auditor should:
 - a. Assess the adequacy of management’s system for measuring effectiveness.
 - b. Determine the extent to which a program achieves a desired level of program results.
 - c. Identify factors inhibiting satisfactory performance.

Although it is the entity management’s continuing responsibility to assess program results, government program objectives and measurement criteria are not always clearly defined. Until this is done, however, a program results review cannot be meaningful. If this has not been done before starting a program results review, the auditor should work with the entity to (1) state the objectives, (2) establish measurement criteria, and (3) establish methods for accumulating the data necessary to measure achievement of program results.

When the program objectives and measurement criteria are defined, the auditor should consider:

- The relevance and validity of the criteria used by the entity to measure achievement of program results.
- The appropriateness of the entity's methods for evaluating achievement of program results.
- The reliability of the data accumulated.
- The reliability of the results obtained.

A program results review may involve several different sites and different auditors at each site. In these cases the work should be coordinated and the review techniques should be uniform. To do otherwise would be uneconomical and might lead to wide variations in the measurements of similar projects by different auditors.

Auditors are not required to express an opinion on the effectiveness of a program. However, the auditors should state their conclusions about the effectiveness of the program. They should also describe the effectiveness measurement system, performance indicators, performance standards, data sources, and data collection techniques used in the final report along with recommendations.

A. Qualifications

The first general standard for government auditing is:

- **The auditors assigned to perform the audit must collectively possess adequate professional proficiency for the tasks required.**

This standard places upon the audit organization and the auditor the responsibility for ensuring that the audit is conducted by personnel who collectively have the skills necessary for the type of audit to be done.

However, this standard recognizes that those possessing special skill in a particular field other than accounting and auditing cannot meet the requirements of the auditing standards without proper audit training. This should include both formal classroom training and on-the-job training.

Audits vary in purpose and scope. Some require opinions on financial statements; others require reviews of efficiency and economy or effectiveness in achieving program results; still others require more than one of these three elements. Meeting these requirements calls for a wide variety of skills.

The qualifications mentioned herein should apply to the skills of the audit organization as a whole and not necessarily to individual auditors. If an organization possesses personnel, or hires outside consultants, with acceptable skills in such areas as accounting, statistics, law, engineering, and actuarial science, each individual member need not possess all these skills.

Qualifications for staffs performing government audits are as follows:

1. A knowledge of accounting and auditing theory and procedures and the education, ability, and experience to apply such knowledge to the type of audit being done.
2. A knowledge of government organizations, programs, activities, and functions which may be acquired by education, study, or experience.
3. The skills necessary for the audit.
 - a. For financial audits which lead to an opinion on financial statements:
 - The government auditor must be proficient in accounting and auditing.

- When public accountants are to perform the audits, only certified public accountants or public accountants licensed on or before December 31, 1970, or persons working for a certified public accounting firm or a public accounting firm licensed on or before December 31, 1970, should be engaged.¹
- b. The skills of the auditor or staff must also be appropriate for all types of audit work. For instance:
- If the work requires use of statistical sampling techniques, the staff or consultants to the staff must include persons with statistical sampling skills.
 - If the work requires extensive review of computerized systems, the staff or consultants to the staff must include persons with computer audit skills.
 - If the work involves review of complex engineering data, the staff or consultants to the staff must include persons with engineering skills.

Auditors and audit organizations are responsible for maintaining technical competence through continuing education.

B. Independence

The second general standard for government auditing is:

- **In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.**

This standard places upon auditors and audit organizations the responsibility for maintaining independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

¹ Letter (B-148144, May 28, 1975) from the Comptroller General to Senator Abraham A. Ribicoff and letter (B-148144, June 30, 1976) from the Comptroller General to heads of Federal agencies. It is GAO's position that auditors need the highest type of skills to audit and render opinions on financial statements. Uniform criteria are required to ensure that those who render such opinions possess the necessary skills.

Auditors should consider not only whether they are independent and their own attitudes and beliefs permit them to be independent but also whether there is anything about their situation that might lead others to question their independence. All situations deserve consideration since it is important not only that auditors be, in fact, independent and impartial but also that knowledgeable third parties consider them so.

Public accountants will be considered independent if they are independent under the AICPA Code of Professional Ethics.

Auditors need to consider three general classes of impairments to independence: personal, external, and organizational. If one or more of these affect their ability to do their work and report their findings impartially, they should decline to perform the audit. If the auditors are employees of the audited entity, they should state that in a prominent place in the audit report.

Personal Impairments

There are circumstances in which auditors cannot be impartial because of their view or personal situation. While these impairments apply to individual auditors, they may also apply to the audit organization. These circumstances include, but are not limited to, the following:

1. Official, professional, personal, or financial relationships that might cause the auditor to limit the extent of the inquiry, to limit disclosure, or to weaken audit findings in any way.
2. Preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit.
3. Previous involvement in a decisionmaking or management capacity that would affect current operations of the entity or program being audited.
4. Biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organization, or level of government.
5. Subsequent performance of an audit by the same individual who, for example, had previously approved invoices, payrolls, claims, and other proposed payments.

6. Subsequent performance of an audit by the same individual who maintained the official accounting records.²
7. Financial interest, direct or substantial indirect, in the audited entity or program.

External Impairments

Factors external to the audit organization can restrict the audit or interfere with an auditor's ability to form independent and objective opinions and conclusions. For example, under the following conditions an audit will be adversely affected and the auditor will not have complete freedom to make an independent and objective judgment:

1. Interference in the assignment of audit personnel.
2. Restrictions on funds or other resources dedicated to the audit organization.
3. Authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report or selection of what is to be audited.
4. Influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

Organizational Impairments

Auditors' independence can be affected by their place within the structure of the government entity to which they are assigned and also by whether they are auditing internally or auditing other entities.

Internal auditors

A Federal, State, or local government auditor may be subject to policy direction from persons involved in the government management process. To help achieve maximum independence, the audit function or organization should report to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the unit under audit.

²For example, an individual performs a substantial part of the accounting process or cycle, such as analyzing, journalizing, posting, preparing adjusting and closing entries, and preparing the financial statements, and later performs an audit. There may be instances when the auditor acts as the main processing center for recording transactions initiated by the auditee and the auditee acknowledges responsibility for the financial records and financial statements; however, in these instances the independence of the auditor is not necessarily impaired.

Auditors should also be sufficiently removed from political pressures to ensure that they can conduct their audits objectively and can report conclusions objectively without fear of censure. Whenever feasible, they should be under a personnel system where compensation, training, job tenure, and advancement are based solely on merit.

If the above conditions are met, and there are no personal or external impairments, the audit staff should be organizationally independent to audit internally and free to report objectively to top management. The main objective of an internal audit staff is to serve the entity. Therefore, internal auditors may not be considered independent of the entity by third parties while auditing within their organization.³ While the internal auditor may not be considered independent, the external auditor, in auditing the entity, should use the internal auditor's work to the extent feasible after appropriate tests are performed.⁴

When organizationally independent internal auditors perform audits external to the government entity to which they are assigned, they may be considered independent of the audited entity and should be free to objectively report the findings.

External auditors

Government auditors who are elected and legislative auditors auditing executive entities usually are free of organizational impairments when auditing outside the government entity to which they are assigned.

Government auditors may be presumed to be independent of the audited entity, assuming there are no personal or external impairments, if the entity is:

1. A level of government other than the one to which they are assigned (Federal, State, or local).
2. A different branch of government within the level of government to which they are assigned (legislative, executive, or judicial).

³ An exception might be the new inspectors general within the Federal Government. The inspectors general, by law, have certain reporting responsibilities to the Congress, including reporting the results of in-house audits. This removes some of the organizational impairments. A parallel example would be a local auditor who, although an employee of the local government, reports to both the legislative board or council and the top local official.

⁴ See AICPA's "The Effect of an Internal Audit Function on the Scope of an Independent Auditor's Examination," SAS No. 9.

Government auditors may also be presumed to be independent assuming there are no personal or external impairments if they are:

1. Elected by the citizens of their jurisdiction.
2. Elected or appointed by and reporting to the legislative body of the level of government to which they are assigned.
3. Appointed by the chief executive and confirmed by and reporting to the legislative body of the level of government to which they are assigned.

C. Due Professional Care

The third general standard for government auditing is:

- **Due professional care is to be used in conducting the audit and in preparing related reports.**

This standard places upon the auditor and the audit organization the responsibility for employing professional standards in auditing government organizations, programs, activities, and functions.

This standard does not imply unlimited responsibility for disclosure of irregularities or noncompliance; neither does it imply infallibility on the part of either the audit organization or the individual auditor. The standard does require professional performance of a quality appropriate for the audit assignment undertaken.

The standard requires the auditor to be alert for situations or transactions that could be indicative of fraud, abuse, or illegal expenditures or acts, inefficiencies, or ineffectiveness. The standard does not, however, require that the auditor give absolute assurance that no impropriety exists; nor does it require that all transactions be audited in detail.

Auditing is not a substitute for an internal control system. Management is responsible for instituting adequate procedures and controls to provide reasonable assurance against irregularities and improprieties and encouraging adherence to adopted policies and prescribed requirements.

Exercising due professional care means using good judgment in choosing tests and procedures and in preparing reports. As a minimum the choice of tests and procedures requires consideration of:

1. What is necessary to achieve the audit objectives.
2. Materiality of matters to which the test procedures will be applied.
3. Effectiveness of internal controls.
4. Cost versus benefits of the audit work being done.

The quality of audit work and related reports depends upon the degree to which:

1. Tests and procedures are properly designed to meet planned objectives and are performed by competent persons.
2. Findings and conclusions are based on an objective evaluation of all pertinent facts.
3. Facts and conclusions in reports are fully supported by information obtained or developed during the audit.
4. The audit process conforms with the examination and evaluation standards and the reporting standards in chapters V, VI, and VII, respectively.
5. A review is performed at every level of supervision of the work done and of the judgment exercised by those assisting in the examination.

Due professional care also includes obtaining a mutual understanding of the audit scope and objectives with the audited entity as well as those who authorized the audit. It also includes obtaining a good working understanding of the operations to be audited and available performance measurement criteria (including laws and regulations). When the criteria are vague, the auditors should seek interpretation. If interpretation is not available, auditors should strive to agree on the appropriateness of these measures with the interested parties, or indicate that they were unable to report upon performance because of the lack of definitive criteria.

Due professional care also includes followup on findings from previous audits to determine whether appropriate corrective actions have been taken.

D. Scope Impairments

When factors external to the audit organization and the auditor restrict the audit or interfere with the auditor's ability to form objective opinions and conclusions, the auditor should attempt to remove the limitation or, failing that, report the limitation. For example, under the following conditions an audit will be adversely affected and the auditor will not have complete freedom to make an objective judgment:

1. Interference or influence that improperly or imprudently limits or modifies the scope or type of an audit.
2. Interference with the selection or application of audit procedures or the selection of transactions to be examined.
3. Denial of access to sources of information, such as books, records, and supporting documents, or denial of opportunity to obtain explanations by officials and employees of the organization, program, or activity under audit.
4. Unreasonable restrictions on the time allowed to competently complete an audit.

Examination and Evaluation (Field Work) and Reporting Standards For Financial and Compliance Audits

The standards for examination and evaluation (field work) and reporting for government financial and compliance audits include the AICPA auditing standards. However, to satisfy the unique needs of government, additional standards and requirements are added to the AICPA standards.

A. AICPA Statements on Auditing Standards

AICPA Statements on Auditing Standards for field work and reporting are adopted and incorporated in this statement for government financial and compliance audits. These standards are set forth in AICPA's "Codification of Statements on Auditing Standards," issued in 1981. Future statements should be adopted and incorporated unless GAO excludes them by formal announcement.

B. Additional Standards and Requirements

To satisfy the unique needs of government, additional standards and requirements are added to the AICPA standards. These are discussed below.

1. Standards on Examination and Evaluation (Field Work)

The following areas under examination and evaluation need additional attention in government financial and compliance audits.

a. Planning

- **Planning shall include consideration of the requirements of all levels of government.**

In many instances, audits of the same organizations, programs, activities, or functions may be required by Federal, State, and local laws, regulations, and ordinances.

When this situation exists, the auditor should ascertain what governments are to be served by the audit, and to the maximum extent practicable, plan the audit so that it will fulfill the needs of all potential government users.

In government, there is a stewardship responsibility that goes beyond the level of the effect upon the financial statements as a whole. The auditor should consider this fact in planning the audit.

b. Legal and Regulatory Requirements

- **A review is to be made of compliance with applicable laws and regulations.**

In government auditing, compliance with laws and regulations is significant because government organizations, programs, activities, and functions are usually created by law and have more specific rules and regulations than do private organizations.

This standard places upon the auditors the responsibility for determining whether the audited entity has complied with the laws and regulations. Auditors should consult with legal counsel when questions arise concerning the interpretation of laws and regulations. In financial and compliance auditing, the auditors are to test the financial transactions of the audited organization, program, activity, or function to determine whether there is compliance with laws and regulations that can materially affect the entity's financial statements. Specifically, the auditors are to satisfy themselves that the entity has not incurred significant unrecorded liabilities (contingent or actual) through failure to comply with, or through violation of, laws and regulations.

Also, in government audits, more indepth transaction testing may be required than in commercial audits, to provide reasonable assurance of compliance with laws and regulations. For example, when transactions selected for testing include grant transactions, the auditors should determine whether costs were charged to the proper grant and allocated equitably among grants and other benefiting activities.

c. Working Papers

- **A written record of the auditors' work shall be retained in the form of working papers.**

Working papers are the link between field work and the auditors' report. They serve as a record of the results of the examination and the bases of the auditors' opinions. Procedures should be adopted to ensure the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements.

One premise underlying the audit planning is that Federal, State, and local governments cooperate in auditing programs of common interest so that auditors may use each other's work and avoid duplicate efforts. Auditors should rely on other auditors' work to the extent feasible once they satisfy themselves as to the

other auditors' capabilities, independence, and performance by appropriate tests of the work or by other acceptable methods.¹

To do this, the auditors generally must have access to the working papers of the other auditors. For working papers containing restricted information, the pertinent regulations should be followed.

Arrangements should be made to ensure that working papers will be made available upon request to other government audit staffs and individual auditors whose work follows theirs. All contractual arrangements for government audits should provide for access to working papers.

As a general guideline, working papers should:

- (1) Contain the results and scope of the examination.
- (2) Not require detailed, supplementary, oral explanations.
- (3) Be legible.
- (4) Restrict information included to matters that are materially important and relevant to the objectives of the examination.

d. Fraud, Abuse, and Illegal Acts

- **Auditors shall be alert to situations or transactions that could be indicative of fraud, abuse, and illegal expenditures and acts and if such evidence exists, extend audit steps and procedures to identify the effect on the entity's financial statements.**

Normal audit tests and procedures may uncover indications of such acts. The auditors shall extend audit steps and procedures if the examination indicates that fraud, abuse, or illegal acts may have occurred. The extended audit steps should be directed to obtaining sufficient evidence to determine whether in fact they have occurred and, if so, the possible effect on the entity's financial statements. Auditors should not release reports containing information on such acts until they consult with legal counsel.

An audit made in accordance with the standards in this statement will not guarantee the discovery of all fraud, abuse, or illegal acts that might have been

¹Quality assessment guidelines for audit organizations have been developed by the AICPA (Statement 1 on Quality Control Standards). See also SAS No. 1, section 543, and SAS No. 9. Also, the intergovernmental audit forums have developed similar guidelines for audit organizations.

committed. Nor does the subsequent discovery of fraud, abuse, or illegal acts committed during the audit period necessarily mean that the auditors' performance was inadequate. If the audit was made in accordance with these standards, the auditors have fulfilled their professional responsibility.

2. Standards on Reporting

The following additional requirements in the reporting area exist for government financial and compliance audits:

a. Distribution

- **Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.**

Audit reports should be distributed to as many interested officials as is practicable. In some cases, the subject of the audit may involve material that is classified for security purposes or is not releasable for other valid reasons. Generally, however, the report should be distributed to officials directly interested in the findings. Such officials include those designated by law or regulation to receive such reports, those responsible for taking action, legislators, and those of other levels of government that have provided funds to the audited entity. Also, unless restricted by law or regulation, copies should be available for distribution to or for inspection by the public.

When public accountants are engaged, the engaging organization must ensure that appropriate distribution is made. If the public accountants are to make the distribution, the engagement agreement should indicate what officials or organizations shall receive the report.

Internal auditors should follow their entity's own arrangements. Usually, they report to their entity's top management and the entity is responsible for distribution of the report.

b. Statement on Auditing Standards Followed in the Audit

- **A statement in the auditors' report that the examination was made in**

accordance with generally accepted government auditing standards for financial and compliance audits will be acceptable language to indicate that the audit was made in accordance with these standards.² (The AICPA requires that public accountants state that the examination was made in accordance with generally accepted auditing standards. They should also state that their examination was performed in accordance with those additional standards and requirements set forth in this chapter.)

c. Statement on Compliance and Fraud, Abuse, or Illegal Acts

- **Either the auditors' report on the entity's financial statements or a separate report shall contain a statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. It shall also include material instances of noncompliance and instances or indications of fraud, abuse, or illegal acts found during or in connection with the audit.**

Positive and Negative Assurances

Positive assurance consists of a statement by the auditors that the tested items were in compliance with applicable laws and regulations. Negative assurance is a statement that nothing came to the auditors' attention as a result of specified procedures that caused them to believe the untested items were not in compliance with applicable laws and regulations.

Compliance Statement

Material instances of noncompliance should be reported. Minor procedural noncompliance that is not illegal need not be disclosed.

In reporting noncompliance, the auditors should place their findings in proper perspective. The extent of noncompliance should be related to the number of cases examined to give the reader a basis for judging the prevalence of noncompliance. In presenting the findings, the auditor should follow chapter VII, sections D and E of this statement.

Fraud, Abuse, and Illegal Acts

If, during or in connection with an audit of a government entity, external

² *The audit standards set forth in this publication, "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."*

government auditors become aware of fraud, abuse, or illegal acts or indications of such acts affecting the government entity, they should promptly notify the top official of that entity (unless the official is believed to be a party to such acts or otherwise implicated) and the appropriate law enforcement authorities. If the acts involve funds received from other government entities, auditors should also promptly notify officials of those entities.

Public accountants performing government audits will discharge their responsibility by promptly notifying the entity arranging for the audit. Internal government auditors should notify the top official of the entity under audit. It will be the responsibility of the entity receiving the information to notify appropriate law enforcement authorities and other government entities whose funds may be involved.

In the case of an audit of government funds received by a nongovernment entity, the auditors should promptly notify the appropriate entity arranging for the audit.

All fraud, abuse, or illegal acts or indications of such acts, whether material or not, that auditors become aware of should normally be covered in a separate written report and submitted in accordance with the preceding paragraphs, thus permitting the overall report to be released to the public. However, auditors should not release to the public reports containing information on such acts, or reports with references that such acts were omitted from reports, without consulting with legal counsel, since this could interfere with legal processes or subject the implicated individuals to undue publicity.

d. Statement on Internal Accounting Control

- **The auditors shall report on their study and evaluation of internal accounting controls made as part of the financial and compliance audit.³ They shall identify as a minimum: (1) the entity's significant internal accounting controls, (2) the controls identified that were evaluated, (3) the controls identified that were not evaluated (the auditor may satisfy this requirement by identifying any significant classes of transactions and related assets not included in the study and evaluation), and (4) the material weaknesses identified as a result of the evaluation.**

³ *This standard does not require any additional audit effort other than that required as part of a normal financial and compliance audit described in this statement.*

Both AICPA standards and generally accepted government auditing standards specify the need for a proper study and evaluation of internal accounting control as a part of the audit. The study and evaluation establishes a basis for determining the extent to which auditing procedures are to be restricted, and it is an intermediate step in forming an opinion on the financial statements.

AICPA SAS No. 1, section 320, gives guidance on the auditor's study and evaluation of internal accounting control. Also, AICPA SAS Nos. 20 and 30 give guidance on reporting on internal accounting control. Paragraph 49 of SAS No. 30 gives an example of a report on internal accounting control. However, the additional requirements stated in the above standard must be included in the report.

There are a number of reasons why a study and evaluation of internal accounting control may not be made. They include:

- (1) The entity is so small that it is not feasible to have an adequate internal control system.
- (2) The auditor may conclude that the audit can be performed more efficiently by expanding substantive audit tests, thus placing very little reliance on the internal control system.
- (3) The existing internal control system may contain so many weaknesses that the auditor has no choice but to rely on substantive testing, thus virtually ignoring the internal control system.

The above circumstances may justify not making a study and evaluation of internal accounting controls. However, the auditors must describe in their report why a study was not made.

e. Other Reporting

- **Either the auditors' report on the entity's financial statements or a separate report shall contain any other material deficiency findings identified during the audit not covered in subparagraph c above.**

In presenting the findings, the auditors should follow the procedures identified in the reporting standards discussed in chapter VII, sections D and E of this statement.

f. Privileged and Confidential Information

- **If certain information is prohibited from general disclosure, the report shall state the nature of the information omitted and the requirement that makes the omission necessary.**

Certain financial information may be prohibited from general disclosure by Federal, State, or local laws or regulations. Such information may be provided on a need-to-know basis only to persons authorized by law or regulation to have it.

If the auditors are prohibited by such requirements from including pertinent data in the report, they should state the nature of the information omitted (for example, “indications of illegal acts”—however, see last paragraph of subsection 2c above) and the requirement that makes the omission necessary. The auditor should obtain assurance that a valid requirement for the omission exists.

Examination and Evaluation Standards For Economy and Efficiency Audits and Program Results Audits

A. Planning

The first examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **Work is to be adequately planned.**

Planning is important to ensure that the audit results will satisfy the objectives of the audit. Adequate planning is especially important in reviews of economy and efficiency or program results, because the procedures employed in such audits are varied and complex.

This standard places upon the auditor or audit organization the responsibility for thoroughly planning an effective audit. This should include planning how the audit objectives can be attained while establishing a balance between audit scope, time frames, and staff-days to be spent to ensure optimum use of audit resources. The auditor should see that necessary or desired auditing procedures are systematically laid out so that they can be understood by the assigned audit staff.

Planning is extremely important in intergovernmental auditing because, in many instances, the audit work performed at one level of government should be correlated with work done at the same level or different levels. All or some may have an interest in, or a statutory requirement to review, the discharge of financial, management, or program accountability of a single organization, program, activity, or function. When such coordination is necessary, planning must be done by some central audit agency which will establish the audit objectives and scope so that the participatory audits done at individual sites will be comparable and the results can be consolidated.

Adequate planning should include consideration of:

1. Coordination with other government auditors, when appropriate, including work already done and other work that may be intended in the future.
2. Personnel to be used on the assignment.
3. Work to be done.
4. The format and general content of the report to be issued.

Coordination

In government auditing, a central audit agency, such as a Federal or State audit organization, may be responsible for audits involving work at several different locations by its field office staff. The central agency must carefully plan these audits to ensure that they will be done effectively and efficiently.

Planning for such audits must be tailored to the specific audit objectives. Ordinarily the central audit agency should specify the compliance requirements to be considered by the auditor, the aspects of economy and efficiency to be included in the audit, and the program goals and objectives and measurement criteria to be used in reviewing program results. Unless such planning is carefully done and communicated to the participating staffs, the audit results may not meet the needs and expectations of the central audit agency. Unplanned audit effort will make it difficult to compare and consolidate the findings from various locations.

Furthermore, a coordinated audit can be planned more efficiently and economically at the central audit agency level. For example, researching the program laws and regulations and establishing clear and concise audit objectives are time consuming. To have each participating staff do this would create excessive duplication and cost. Some audits require even closer coordination because a given event may be audited at more than one location by different staffs. The preparation of detailed audit programs for such audits is an integral part of the standard for planning.

Multiple-Use Audits

In many instances, audits of the same organizations, programs, activities, or functions may be required by Federal, State, and local laws, regulations, and ordinances. Whenever practicable, a single audit should be made that includes the requirements of all levels of government.

Personnel

Staff planning should include:

1. Assigning qualified staff having education and experience commensurate with the work to be done.
2. Assigning enough experienced staff and supervisors to the audit. Consultants should be hired when necessary.

3. Providing on-the-job training for inexperienced staff.

Work To Be Performed

A written audit program should be prepared for each audit and is essential to conducting audits efficiently and effectively. An audit program provides:

1. A systematic series of audit procedures which can be communicated to the assigned staff members.
2. A systematic basis for assigning work to supervisors and assistants.
3. The basis for a summary record of work done.

However, a written audit program should never be used merely as a checklist of steps to be performed. Effective work on economy and efficiency audits and program results audits requires that the staff understand the objectives of the audit and use their own initiative in determining the appropriateness of steps in the audit program and in assessing the results of the work performed.

The information needed by the auditor to prepare an audit program varies with the type of audit (economy and efficiency or program results) and the entity to be audited. In many instances, a survey of the entity should be made before preparing the audit program. This is especially important when conducting expanded scope audits which include evaluation of program results. The audit survey is an effective method to help identify specific audit areas. It is a process for quickly gathering information, without detailed verification, on the organizations, programs, activities, and functions.¹

A survey should provide information about the size and scope of the entity's activities and areas in which there may be weaknesses in internal controls, uneconomical or inefficient operations, lack of effectiveness in achieving goals, or lack of compliance with laws and regulations. However, tests to determine the significance of such matters are performed in the detailed audit work as specified in the audit program.

¹The concepts and procedures of the audit survey are discussed in GAO Audit Standards Supplement No. 11 entitled, "The Audit Survey—A Key Step in Auditing Government Programs."

The audit program should generally include the following information:

1. *Introduction and background*—Information should be provided about the legal authority for the audited organization, program, activity, or function; its history and current objectives; its principal locations; and similar information needed by the auditor to understand and carry out the audit program.
2. *Purpose and scope of the audit*—The purpose of the audit should be identified, and information should be provided as to whether the audit is to include one or more of the two elements—economy and efficiency and program results.
3. *Objectives of the audit*—The specific goals of the audit should be clearly stated.
4. *Definition of terms*—Any unique terms or abbreviations used by the audited entity should be defined or explained.
5. *Special instructions*—The auditors must clearly understand and reach early agreement on the responsibilities in each audit. This is especially important when the work is to be directed by a central audit organization with work to be performed at several different locations. This section may be used to list the responsibilities of each audit organization, such as preparing audit programs, supervising audit work, drafting reports, handling auditee comments, and processing the final report.
6. *Audit procedures*—For most audits, it is desirable to prescribe procedures for the auditors to follow. It is especially important when program results reviews are to be performed at a number of locations. The central audit organization planning the work should ordinarily prescribe specific methods to be followed in the examination to be sure that the data obtained from participating locations will be comparable. However, this should be done in a manner that does not restrict the auditors' professional judgment. Audit programs should never be used as a blind checklist in a way that stifles initiative and thoroughness.
7. *Report*—The audit program should set forth the general format to be followed in the audit report and discuss the types of information desired to be in it.

Reliance On Other Auditors

One premise underlying the audit standards is that Federal, State, and local governments cooperate in auditing programs of common interest so that auditors may use each other's work and avoid duplicate efforts. Auditors should rely on

other auditors' work to the extent feasible once they satisfy themselves as to the other auditors' capabilities, independence, and performance by appropriate tests of the work or by other acceptable methods. Quality assessment guidelines for government audit organizations, developed by the intergovernmental audit forums, or Statement 1 on Quality Control Standards, by the AICPA, might be used. To do this, the auditors generally must have access to the working papers of the other auditors. For working papers containing restricted information, the pertinent regulations should be followed.

Arrangements should be made to ensure that working papers will be made available upon request to other government audit staffs and auditors who perform audits at later dates. All contractual arrangements for government audits should provide for access to working papers.

B. Supervision

The second examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **Assistants are to be properly supervised.**

This standard places upon the auditor or audit organization the responsibility for seeing that staff receive appropriate guidance in performing their work to ensure high quality work and effective on-the-job training.

The most effective way to ensure the quality and expedite the progress of an assignment is by exercising proper supervision from the start of the planning to the completion of the report draft. Supervision adds seasoned judgment to the work done by less experienced staff and provides necessary training for them.

Assigning and using assistants is important to satisfactory achievement of objectives. Since training, experience, and other qualifications vary among auditors, work assignments must be commensurate with abilities.

Supervisors should satisfy themselves that assistants clearly understand their assigned tasks before starting the work. Assistants should be informed of not only what work they are to do and how they are to proceed, but why the work is to be done and what it is expected to accomplish.

With a seasoned staff, the supervisors' role may be more general. They may outline the scope of the work and leave details to assistants. With a less experienced staff, the supervisor may have to handle many details and specify to the staff what to do and how to do it.

Supervisory reviews should determine whether (1) conformance with audit standards is obtained, (2) the audit programs are followed, unless deviation is justified and authorized, (3) the working papers adequately support findings and conclusions and provide sufficient data to prepare a meaningful report, and (4) the audit objectives are met. Supervisory reviews should be documented and retained.

C. Legal and Regulatory Requirements

The third examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **A review is to be made of compliance with applicable laws and regulations.**

In government auditing, compliance with laws and regulations is significant because government organizations, programs, activities, and functions are usually created by law and have more specific rules and regulations than do private organizations.

This standard places upon the auditors the responsibility for determining whether the audited entity has complied with the laws and regulations. Auditors should consult with legal counsel when questions arise concerning the interpretation of laws and regulations. The nature and purpose of the review of legal and regulatory requirements varies with the element of auditing being done.

Economy and efficiency—The auditors are to review the laws and regulations that could significantly affect the acquisition, management, and utilization of the entity's resources.

Program results—The auditors are to review the laws and regulations pertaining to the objectives of the entity's programs or activities to gain an understanding of the results expected from the programs or activities. They must also do sufficient testing to determine whether the programs or activities are being carried out in conformity with these laws and regulations.

When the auditors are at the central audit organization, they ordinarily should be responsible for determining which laws and regulations are to be considered in the audit. When funding from another level of government is involved, legal and regulatory requirements for that level should be made available to the auditors. Furthermore, the central audit organization is familiar with statutes and requirements and can provide them with less effort than could the auditors auditing the entity. However, it should be pointed out that the auditors performing the audit are responsible for thoroughly planning an effective audit.

The auditors at the central audit organization should review those laws and regulations that have a direct bearing or a significant impact upon the auditee or its operations. The laws and regulations that may apply to a specific government organization, program, activity, or function are often so numerous that the auditors cannot be expected to review every one that might in some way have an impact. Consequently, such a review requires considerable judgment. Some sources of information on legal and regulatory requirements follow.

1. Legal or legislative data, including:
 - a. Basic legislation.
 - b. Reports of hearings.
 - c. Legislative committee reports.
 - d. Annotated references from reference services covering related court decisions and legal opinions.
 - e. Historical data relating to the legislative history of authorizing legislation.
 - f. State constitutions, statutes, resolutions, and legislative orders.
 - g. Local charters, ordinances, and resolutions.
2. External administrative requirements, including:
 - a. Memorandums from Federal, State, or local administrative agencies.
 - b. Federal, State, or local guidelines and other administrative regulations affecting program operations.
3. Grant and contract arrangements, including:
 - a. Proposals from grantees.
 - b. Correspondence from grantors and grantees.
 - c. Memorandums of meetings held to discuss the grants and contracts.
 - d. Grant and contract documents, including amendments.
 - e. Grant and contract regulations and OMB management circulars.
 - f. Grant budgets and supporting schedules.

D. Internal Control

The fourth examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **During the audit a study and evaluation shall be made of the internal control system (administrative controls) applicable to the organization, program, activity, or function under audit.**

The lack of administrative continuity in government units because of continuing changes in elected legislative bodies and in administrative organizations increases the need for an effective internal control system.

Internal controls can be subdivided into accounting controls and administrative controls. In economy and efficiency audits and program results audits the auditors should be more concerned with administrative internal controls. Administrative controls include the plan of organization and the methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies.

The focus of the review of internal control varies with the type of audit being done.

Economy and efficiency—The auditors are to review those policies, procedures, practices, and controls applicable to the activities, and try to determine whether the entity is managing or using its resources economically and efficiently.

Program results—The auditors are to review those policies, procedures, practices, and controls which have a specific bearing on the attainment of the goals and objectives specified by the law or regulations for the organization, program, activity, or function under audit.

Internal auditing is an important part of internal control, and the auditors should consider this in performing either of the audit elements listed above. The auditors should consider the coverage of the internal auditors and the extent to which they can be relied upon to provide reasonable assurance that internal control is functioning properly.

In reviewing internal control in economy and efficiency audits it is common practice to identify problem areas first and then review controls that relate to the area in which the problem exists. Such a review is consistent with the requirements of these standards.

In view of the wide range in the size and nature of government organizations, programs, activities, and functions and in view of their organizational structures and operating methods, no single pattern for internal audit activities can be specified. Many government entities have internal audit activities identified by other names, such as inspection, appraisal, investigation, organization and methods, or management analysis. These activities assist management by reviewing selected functions. To prevent duplication of effort, all auditors should use, to the maximum extent practical, the work of internal personnel.

E. Auditing Computer-Based Systems²

The fifth examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **The auditors shall:**
 1. **Review general controls in data processing systems to determine whether (a) the controls have been designed according to management direction and known legal requirements and (b) the controls are operating effectively to provide reliability of, and security over, the data being processed.**
 2. **Review application controls of installed data processing applications upon which the auditor is relying to assess their reliability in processing data in a timely, accurate, and complete manner.**

In addition to reviewing general and application controls, the auditor should have a role in the design and development of new data processing systems or applications and significant modifications thereto.

It is possible to develop a data processing system with such poor controls that neither the manager nor the auditor can rely on its integrity. Thus, the auditor's review during the design and development of these systems has become crucial if management is to have reasonable assurance that auditable and properly controlled systems are being developed. Compliance with this objective may not always be feasible because audit organizations may not have the resources or staff skills to review the design and development of these systems. However, such review should be an auditing goal.

The role of the auditor in the review of the design and development of data processing systems is discussed in appendix I.

Review of General Controls In Computer-Based Systems

The transition from mechanical data processing to automatic data processing occasions the need for revision of traditional audit approaches. The complexity and scope of such systems requires that the auditor give greater attention both to the system that processes data and the data itself. If the system is reasonably secure and adequately controlled, the auditor can rely on the data processed and reported.

² These standards were originally issued by the Comptroller General of the United States in March 1979 in a booklet, "Auditing Computer-Based Systems."

The auditor should distinguish between general and application controls. General controls are normally applicable to the majority of data processing being carried out within the installation, while application controls may vary among applications and are therefore reviewed on an individual application basis. (See computer audit standard 2 for application controls audit review.) The auditor is to consider the effectiveness of those general controls applicable to the system under review in performing the review of individual application controls.

Organizational controls

Authority and responsibility must be delegated in such a manner that the organizational objectives can be met efficiently and effectively. The auditor should review the organization, delegation of authority, responsibilities, and separation of duties in the entity. The goal is to determine whether lines of authority are designed to meet the organization's objectives and whether the separation of duties provides for strong internal control. For example, whenever feasible, separation of duties should provide for separation among program and systems development functions, computer operations, controls over input of data, and the control groups that maintain application controls. The "total system" must be considered.

In reviewing separation of duties, the auditor should evaluate the control strengths and report on weaknesses resulting from inadequate separation. Policies of periodic rotation of employees and mandatory vacation scheduling may help management maintain adequate separation of duties. The auditor should determine whether such policies are being followed.

Physical facilities, personnel, and security controls

Adequate physical facilities and other resources (such as adequately trained personnel and supplies) are necessary for the entity to meet its data processing objectives. The auditor should determine whether the entity has adequate resources to meet its needs.

Personnel management, including supervision, motivation, and professional development of personnel, is integral to successful data processing. The auditor should evaluate management policies and practices to ascertain whether the necessary policies exist and determine whether they are properly followed. For example, since the entire field of computers is rapidly evolving, an organization's personnel management office needs to develop, in conjunction with the data processing staff, an education and training program. This program should keep employees abreast of current developments so that they may perform their duties most efficiently and economically and be able to use new methods whenever they

are demonstrably cost effective. Inadequate personnel training and development programs in data processing can hinder accomplishment of the organization's mission.

The auditor should determine whether provisions for security of the computer hardware, computer programs, data files, data transmission, input and output material, and personnel have been adequately considered. This review should include not only the computer equipment in the central processing facility but also minicomputers, computer terminals, communications operations, and other peripheral equipment regardless of location.

In reviewing physical security of computer hardware, the auditor should consider the adequacy of a contingency plan for continued processing of critical applications in the event of a disruption of normal processing. This should include provisions for emergency power and hardware backup as well as detailed plans for using the backup equipment and transporting personnel, programs, forms, and data files to an alternate processing location. The auditor should also consider the extent to which this plan has been tested to determine the probability of continuing data processing support in the event of a real emergency.

The auditor should also review the physical security of data files. This review should ensure that, whenever feasible, data and program file libraries are kept by personnel who do not have access to computers and computer programs; the file libraries are secure; computer operators and other personnel do not have unlimited access to the libraries; and provisions have been made for backup of files (including offsite backup). When files are normally kept online, the auditor should consider whether they are protected by adequate access authorization controls and whether backup copies of files are kept regularly. Also, the auditor should verify whether data backup files are properly identified and labeled. The auditor should also check the contents to ensure that the files are complete and accurate. Similar stringent controls should exist for program backup files.

Operating systems controls

Computer systems are often controlled by operating systems (usually referred to as systems software). Since these operating systems usually provide data handling and multiprogramming capabilities, file label checking, and many other authorization controls, they are integral to the general controls over computer processing. The auditor should be aware of the controls the operating systems can exercise and should ascertain the extent to which they have been implemented, as well as how they can be bypassed or overridden. The auditor should be aware that personnel who maintain the operating systems, and other persons with the ability to modify them, may either intentionally or accidentally cause specific controls within the operating systems to become ineffective.

Hardware controls

Computer hardware frequently can detect errors related to hardware malfunctions (as contrasted with program malfunctions). The auditor should be aware of how (1) the installation relies on these hardware controls, (2) the operating systems use them, and (3) the detected hardware errors are reported within the installation as well as the procedures for taking corrective action.

Review of Application Controls In Computer-Based Systems

Before any assessment of processing reliability or integrity in any application can be complete, both the specific application controls and the general controls must be evaluated in their entirety.

Audit work done in adhering to this standard has two objectives. Both are discussed below.

Conformance with standards and approved design

The first objective is to determine whether the installed applications/systems conform to applicable standards and the latest approved design specifications.

Auditor compliance with this standard provides reasonable assurance that the approved specifications, with all built-in internal controls (such as input, processing, output), have been installed as intended, properly documented, and adequately tested.

When the auditor tests data reliability, the test should include examining documentation for selected transactions, testing the clerical accuracy of the entry and summarizing of transactions, and testing compliance with control procedures. In addition, the auditor may wish to test selected data files to identify possible exception conditions and accuracy of data conversion or capture. If the data files are kept in machine-readable condition, the auditor should, where appropriate, use computer-assisted audit techniques in testing them.

Tests for control weaknesses

The second objective is to test internal controls and the reliability of the data produced. In addition to evaluating adequacy of controls, such tests may disclose possible weaknesses in the installed applications/systems.

These audits should probe the installed applications/systems for adequacy as well as for weaknesses, changed circumstances affecting risk exposure, and so

forth. Where such weaknesses are found, the auditor's work should stimulate corrective modifications and improve the applications. Also, the auditor must be mindful, when conducting tests, that there are no guarantees that the application systems will continue to operate in accordance with the latest approved specifications. Therefore, adequacy of controls over program changes, program documentation, and operating procedures is most important.

Although auditing for fraud is not the primary objective of audits, the auditor must be alert to the possibility of fraud or other irregularities in computer systems (see discussion of fraud, abuse, and illegal acts in standard G).

F. Evidence

The sixth examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' judgments and conclusions regarding the organization, program, activity, or function under audit. A written record of the auditors' work shall be retained in the form of working papers.**

Evidence may be categorized as (1) physical, (2) testimonial, (3) documentary, and (4) analytical.

Physical Evidence

Physical evidence is obtained by direct inspection or observation of (1) activities of people, (2) property, or (3) events. It may be in the form of memorandums summarizing the matters inspected or observed, photographs, charts, maps, or actual samples.

Testimonial Evidence

Testimonial evidence is obtained from others through statements received in response to inquiries or through interviews. The statements critical to the audit should be corroborated when possible by checks of the records and physical tests.

Documentary Evidence

Documentary evidence consists of letters, contracts, accounting records, invoices, and so forth.

Analytical Evidence

Analytical evidence includes computations, comparisons, reasoning, and separation of information into components.

Regardless of the type, the evidence should meet the basic tests of sufficiency, competence, and relevance. The working papers should reflect the details of the evidence and disclose how it was obtained.

Sufficiency

Sufficiency is the presence of enough factual, adequate, and convincing evidence to lead a prudent person to the same conclusion as the auditors'. Determining the sufficiency of evidence requires judgment. When appropriate, statistical methods may be used to establish sufficiency.

Elaborate support of insignificant points is not needed. For significant matters, however, sufficient evidence is needed to back up the conclusion.

Competence

To be competent, evidence should be reliable and the best obtainable through the use of reasonable audit methods. In evaluating the competence of evidence, the auditors should carefully consider whether there is any reason to doubt its validity or completeness. If there is, the auditors should obtain additional evidence.

The following presumptions are useful in judging the competence of evidence; however, these presumptions are not to be considered sufficient in themselves to determine competence:

1. Evidence obtained from an independent source is more reliable than that secured from the audited organization.
2. Evidence developed under a good system of internal control is more reliable than that obtained where such control is weak or unsatisfactory.
3. Evidence obtained through physical examination, observation, computation, and inspection is more reliable than evidence obtained indirectly.
4. Original documents are more reliable than copies.

Auditors should, when they deem it useful, obtain written representations from officials of the organization under audit.

Relevance

Relevance refers to the relationship of evidence to its use. The information used to prove or disprove an issue must have a logical, sensible relationship to that issue. Information that does not is irrelevant and therefore should not be included as evidence.

Working Papers

Working papers are the link between field work and the audit report. They should contain the evidence to support the findings, judgments, and conclusions in the report. Procedures should be adopted to ensure the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements. General guidelines for preparing working papers follow.

1. *Completeness and accuracy*—Working papers should be complete and accurate to provide proper support for findings, judgments, and conclusions, and to enable demonstration of the nature and scope of examination work.
2. *Clarity and understandability*—Working papers should be understandable without detailed supplementary oral explanations. They should also be complete and yet concise. Anyone using them should be able to readily determine their purpose, their source, the nature and scope of the work done, and the preparer's conclusions. Conciseness is important, but clarity and completeness should not be sacrificed just to save time or paper.
3. *Legibility and neatness*—Working papers should be legible and as neat as practicable. Otherwise time will be wasted in reviewing them and in preparing reports. Sloppy working papers may lose their worth as evidence. Crowding and writing between lines should be avoided by anticipating space needs and arranging the working papers before writing.
4. *Relevance*—The information in working papers should be restricted to matters that are materially important and relevant to the objectives of the assignment. There are no substitutes for a working understanding of the audit objectives, the reasons for performing a specific task, and its relationship to the objectives. This understanding comes from well-planned and well-organized work programs and effective instructions by supervisors. The practice of

having all working papers contain clear statements of purpose is very helpful in ensuring that information accumulated is properly tied to audit objectives and reporting.

G. Fraud, Abuse, and Illegal Acts

The seventh examination and evaluation standard for government economy and efficiency audits and program results audits is:

- **Auditors shall: (1) be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts and (2) if such evidence exists, extend audit steps and procedures to identify the effect on the entity's operations and programs.**

Normal audit tests and procedures may uncover indications of possible fraud, abuse, or illegal acts. The auditors shall extend audit steps and procedures if the audit indicates that fraud, abuse, or illegal acts may have occurred. The extended audit steps should be directed to obtaining sufficient evidence to determine whether in fact such acts have occurred and, if so, the possible effect on the entity's operations and programs. Auditors should not release reports containing information on such acts until they consult with legal counsel.

An audit made in accordance with the standards in this statement will not guarantee the discovery of all fraud, abuse, or illegal acts that might have been committed. Nor does the subsequent discovery of fraud, abuse, or illegal acts committed during the audit period necessarily mean that the auditors' performance was inadequate. If the audit was made in accordance with these standards, the auditors have fulfilled their professional responsibility.

Reporting Standards For Economy and Efficiency Audits and Program Results Audits

A. Form

The first reporting standard for government economy and efficiency audits and program results audits is:

- **Written audit reports are to be prepared giving the results of each government audit.**

This standard is not intended to limit or prevent discussion of findings, judgments, conclusions, and recommendations with persons who have responsibilities involving the area being audited. On the contrary, such discussions should be encouraged. However, a written report should be prepared regardless of whether such discussions are held.

Written reports are necessary (1) to communicate the results of audits to officials at all levels of government, (2) to make the findings and recommendations less susceptible to misunderstanding, (3) to make the findings available for public inspection, and (4) to facilitate followup to determine whether appropriate corrective measures have been taken.

B. Distribution

The second reporting standard for government economy and efficiency audits and program results audits is:

- **Written audit reports are to be submitted to the appropriate officials of the organization audited and to the appropriate officials of the organizations requiring or arranging for the audits unless legal restrictions or ethical considerations prevent it. Copies of the reports should also be sent to other officials who may be responsible for taking action 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.**

Audit reports should be distributed to as many interested officials as is practicable. In some cases, the subject of the audit may involve material that is classified for security purposes or is not releasable for other valid reasons. Generally, however, the report should be distributed to officials directly interested in the findings. Such officials include those designated by law or regulation to receive such reports, those responsible for taking action on the findings and recommendations, legislators, and those of other levels of government that have provided funds to the audited entity. Also, unless restricted by law or regulation, copies should be available for distribution to or inspection by the public.

When public accountants are engaged, the engaging organization must ensure that appropriate distribution is made to interested parties. If the public accountants are to make the distribution, the engagement agreement should indicate what officials or organizations shall receive the report.

Internal auditors should follow their entity's own arrangements. Usually, they report to their entity's top management and the entity is responsible for distribution of the report.

C. Timeliness

The third reporting standard for government economy and efficiency audits and program results audits is:

- **Reports are to be issued on or before the dates specified by law, regulation, or other special arrangement. Reports are to be issued promptly so as to make the information available for timely use by management and by legislative officials.**

To be of maximum use, the report must be timely. A carefully prepared report may be of little value to decisionmakers if it arrives too late. Therefore the auditors should plan and conduct the audit with this in mind.

The auditors should consider interim reporting of significant matters to appropriate officials during the audit. Such communication is not a substitute for a final written report, but it does alert officials to matters needing immediate attention and permits them to take corrective action before the final report is completed.

D. Report Contents

The fourth reporting standard for government economy and efficiency audits and program results audits is:

- **The report shall include:**
 1. **A description of the scope and objectives of the audit.**
 2. **A statement that the audit was made in accordance with generally accepted government auditing standards.**
 3. **A description of material weaknesses found in the internal control system (administrative controls).**

4. **A statement of positive assurance on those items of compliance tested and negative assurance on those items not tested. This should include significant instances of noncompliance and instances of or indications of fraud, abuse, or illegal acts found during or in connection with the audit. However, fraud, abuse, or illegal acts normally should be covered in a separate report, thus permitting the overall report to be released to the public.**
5. **Recommendations for actions to improve problem areas noted in the audit and to improve operations. The underlying causes of problems reported should be included to assist in implementing corrective actions.**
6. **Pertinent views of responsible officials of the organization, program, activity, or function audited concerning the auditors' findings, conclusions, and recommendations. When possible their views should be obtained in writing.**
7. **A description of noteworthy accomplishments, particularly when management improvements in one area may be applicable elsewhere.**
8. **A listing of any issues and questions needing further study and consideration.**
9. **A statement as to whether any pertinent information has been omitted because it is deemed privileged or confidential. The nature of such information should be described, and the law or other basis under which it is withheld should be stated. If a separate report was issued containing this information it should be indicated in the report.**

Scope and Objectives

The scope and objectives of the audit should be described in the audit report. The statement of scope tells the reader what the auditors did and did not do.

The scope should clearly indicate whether each of the elements of audit examinations—economy and efficiency and program results—was made and the extent of each element. Also, some audits are more limited in scope than others; for example, some are confined to specific functions, activities, or locations. Such limitations should be clearly specified.

A summary of the audit objective is essential to give the reader the proper perspective—a background against which any reported findings may be considered.

Statement on Auditing Standards

A statement in the auditors' report that the audit was made in accordance with generally accepted government auditing standards will be acceptable.

Statement on Internal Control

Material weaknesses in the internal control system should be described in the audit report.

Positive and Negative Assurances

Positive assurance consists of a statement by the auditors that the tested items were in compliance with applicable laws and regulations. Negative assurance is a statement that nothing came to the auditors' attention as a result of specified procedures that caused them to believe the untested items were not in compliance with applicable laws and regulations.

Compliance Statement

Compliance with laws and regulations, in many instances, assumes importance since recipients of the reports want to know whether funds were spent for authorized purposes.

Significant instances of noncompliance should be reported, even those not resulting in a legal liability of the entity. Minor procedural noncompliance that is not illegal need not be disclosed.

In reporting noncompliance, the auditors should place their findings in proper perspective. The extent of noncompliance should be related to the number of cases examined to give the reader a basis for judging the prevalence of noncompliance.

Fraud, Abuse, or Illegal Acts

If, during an audit or in connection with an audit of a government entity, external government auditors become aware of fraud, abuse, or illegal acts or

indications of such acts affecting the government entity, they should promptly notify the top official of that entity (unless the official is believed to be a party to such acts or otherwise implicated) and the appropriate law enforcement authorities. If the acts involve funds received from other government entities, the auditors should also promptly notify officials of those entities.

Public accountants performing government audits will discharge their responsibility by promptly notifying the entity arranging for the audit. Internal government auditors should notify the top official of the entity under audit. It will be the responsibility of the entity receiving the information to notify appropriate law enforcement authorities and other government entities whose funds may be involved.

In the case of an audit of government funds received by a nongovernment entity, the auditors should promptly notify the appropriate entity arranging for the audit.

All fraud, abuse, or illegal acts or indications of such acts, whether significant or not, that auditors become aware of should be covered in a written report and submitted in accordance with the preceding paragraphs. Such information should normally be covered in a separate report, thus permitting the overall report to be released to the public. Auditors should not release to the public reports containing information on such acts, or reports with references that such acts were omitted from reports, without consulting with legal counsel, since this could interfere with legal processes or subject the implicated individuals to undue publicity.

Recommendations

The audit reports should contain recommendations whenever significant improvement in audited entities is possible. Also, recommendations should be made to effect compliance with laws or regulations when significant instances of noncompliance are noted. Reports which contain constructive recommendations can encourage improvements in the conduct of government programs and activities.

Management is primarily responsible for directing action and followup on recommendations. However, auditors, in subsequent audits, should disclose the status of recommendations included in prior reports.

If the auditors cannot make appropriate recommendations because of limited audit scope or for other reasons, they should state in the report why they cannot and what additional work is needed to formulate recommendations.

Views of Responsible Officials

One of the most effective ways to ensure that a report is fair, complete, and objective is to obtain advance review and comments by officials of the audited entity. This produces a report which shows not only what was found and what the auditors think about it but also what the responsible persons think about it and what they plan to do about it.

Advance comments should be objectively evaluated, and the report presentations and conclusions should recognize them. The comments and an analysis of them should be fairly presented in the text of the report. A promise of corrective action should be noted but should not be accepted as justification for dropping a significant point or a related recommendation.

When the comments oppose the auditors' findings or conclusions and are not, in their opinion, valid, the auditors should state their reasons for rejecting them. Conversely, they should modify their position if they find the comments valid.

Recognition of Noteworthy Accomplishments

Significant management accomplishments identified during the audit should be included in the audit report, along with deficiencies. Such information is necessary to fairly present the situation the auditors find and to provide appropriate balance to the report. In addition, inclusion of such accomplishments may lead to improved performance by other government organizations that read the report.

Issues Needing Further Study

If the scope of the audit or other factors limits the auditors' ability to inquire into certain matters they believe should be studied, the auditors should include in the report such matters and the reasons why they believe they merit further study.

Privileged and Confidential Information

Certain operating information may be prohibited from general disclosure by Federal, State, or local laws or regulations. Such information may be provided on a need-to-know basis only to persons authorized by law or regulation to receive it.

If the auditors are prohibited by such requirements from including pertinent data in the report, they should state the nature of the information omitted (for

example, “indications of illegal acts”—however, see third paragraph on page 52) and the requirement that makes the omission necessary. The auditors should obtain assurance that a valid requirement for the omission exists. If a separate report was issued on omitted information, it should be indicated in the report.

E. Report Presentation

All reports shall:

1. Present factual data accurately and fairly. Include only information, findings, and conclusions that are adequately supported by sufficient evidence in the auditors’ working papers to demonstrate or prove the bases for the matters reported and their correctness and reasonableness.¹
2. Present findings and conclusions in a convincing manner.
3. Be objective.
4. Be written in language as clear and simple as the subject matter permits.
5. Be concise but, at the same time, clear enough to be understood by users.
6. Present factual data completely to fully inform the users.
7. Place primary emphasis on improvement rather than on criticism of the past; critical comments should be presented in a balanced perspective considering any unusual difficulties or circumstances faced by the operating officials concerned.

Accuracy and Adequacy of Support

The need for accuracy is based on the need to be fair and impartial in reporting and to assure readers that what is reported is reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report.

Conclusions should be clearly identified and all facts, findings, and conclusions should be supported by sufficient objective evidence. Except as necessary to make

¹ *Well-developed findings have the following common attributes that provide the framework for an expanded scope audit report: (1) statement of condition (what is), (2) criteria (what should be), (3) effect (difference between what is and what should be), and (4) cause (why it happened).*

convincing presentations, detailed supporting data need not be included. In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that there was a deviation, an error, or a weakness.

Convincingness

Findings must be presented in a convincing manner and conclusions and recommendations must follow logically from the facts presented. The information in reports must be sufficient to persuade the readers of the importance of the findings, the reasonableness of the conclusions, and the desirability of their accepting the recommendations. Reports designed in this manner can do much to focus the attention of responsible officials on the matters in reports which warrant attention and to stimulate corrective actions.

Objectivity

Findings should be presented objectively and should include sufficient information on the subject to give readers a proper perspective. The audit report should be fair and not misleading and should place primary emphasis on matters needing attention. The auditor should guard against the tendency to exaggerate or overemphasize deficient performance noted.

The information needed to provide proper report balance and perspective should include:

1. Why the audit was made.
2. The size and nature of the activities or programs audited.
3. Correct and fair descriptions of findings. To avoid misinterpretations, the size of the sample of items tested and the methods of selecting the items should be given.

Clarity and Simplicity

Reports must be as clear and simple as is practicable. The auditor should not assume that readers have detailed technical knowledge of the subject. If technical terms and unfamiliar abbreviations must be used, they should be clearly defined. Flowery expressions and stilted language must be avoided.

Proper organization of material and precision in stating facts, analyzing them,

and drawing conclusions are essential to clarity. Visual aids (such as pictures, charts, graphs, maps) should be used when possible.

Conciseness

The reports should be no longer than necessary. Too much detail detracts from a report, may even conceal the real message, and may confuse or discourage readers.

Although there is room for considerable judgment in determining the content of reports, those that are complete, but still concise, are likely to receive attention.

Completeness

Although reports should be concise, they should also be complete. Reports should contain sufficient information about findings, conclusions, and recommendations to promote adequate understanding of the matters reported and to provide convincing, but fair, presentations in proper perspective. Sufficient background information should also be included.

Readers should not be expected to possess all the facts that the auditor has, and therefore reports should not be written on the basis that the bare recital of facts makes the conclusions inescapable. Conclusions should be specified, rather than left to be inferred by readers.

Constructiveness of Tone

The tone of reports should encourage favorable reaction to findings and recommendations. Titles, captions, and the text of reports should be stated constructively. Although findings should be presented in clear, forthright terms, the auditors should keep in mind that their objective is to obtain favorable reaction and that this can best be done by avoiding language that unnecessarily generates defensiveness and opposition. Although criticism of past performance is often necessary, the report should emphasize needed improvements rather than criticism.

Auditing Computer-Based Systems—The Auditor's Role During System Design and Development¹

With the computer becoming more complex through the development of sophisticated multiprogramming capacity, the growing number of telecommunications links, and the wide variety of new input and output devices, another dimension has been added to the auditor's role. Auditors must now be able to perform a wide variety of tasks which, until recently, did not exist or were not considered part of their role.

For example, when manual systems were audited, a wide variety of approaches were generally available and the most appropriate was selected for the circumstances. If there were control weaknesses, corrective changes were easily formulated and suggested. However, it is now possible to develop a data processing system with such poor controls that neither the manager nor the auditor can rely on its integrity.

The auditor's role during the design and development processes of automated systems has become crucial if management is to have reasonable assurance that auditable and properly controlled systems are being developed. Thus, it should be the objective of all audit organizations and auditors² to:

"Review the design and development of new data processing systems or applications, and significant modifications thereto."³

Compliance with this objective may not always be feasible because audit organizations may not have the resources or staff skills to review the design and development of automated systems. Also, internal auditors may require additional specific managerial authorization or direction to perform this work, and external auditors such as public accountants may need a special engagement. However, compliance with this objective should be an auditing goal.

Whenever top management direction to perform such work has not already been given, the auditor must alert management to the potential results of such restriction. The auditor should formally communicate to management information on the possible adverse effects of not requiring audit review and evaluation of automated systems design and development processes. Such communication should point out that without effective audit of these processes, the systems

¹These standards were originally issued by the Comptroller General of the United States in March 1979 in a booklet, "Auditing Computer-Based Systems."

²Applies to both external and internal auditors.

³Includes software matters as well as hardware configuration decisions.

- may not possess the built-in controls necessary to provide reasonable assurance of proper operation;
- may not provide the capability to track events through the systems and thus impede, if not completely frustrate, audit review of the systems in operation; and
- (for financial systems) may not permit a classification of transactions in a manner that allows the preparation of financial statements in accordance with generally accepted accounting principles and may result in qualifications of the auditor's opinion on the financial statements.

Both the auditor and management have an interest in ensuring that system design, development, and overall operations achieve the objectives of adequate internal controls and effective auditability.⁴ For systems already in existence when audits are made, the auditor should determine whether the objectives of the system are being achieved.

Systems and applications of computer-based information systems have become more complex and interrelated. Initially, there were separate applications for personnel, payroll, and labor cost accounting. Each application or system was processed independently of the other, and its input material was generated from separate and distinct sources and then processed against separate data files.

With the integration of application systems now being encountered, the payroll, personnel, and labor-cost-accounting applications can be interrelated subsystems of a far larger online system, and the outputs of one subsystem can now be the inputs for another without any human review. Thus, a control weakness in one segment of the system may have completely unanticipated effects on other segments with a cascading of unanticipated effects causing catastrophic results. Such mistakes, waste, and confusion may even adversely affect the entity's viability.

The objectives of requiring auditor review of system design, development, and modification are set forth below, with comments on each.

⁴ Because the engagement of public accountants has unique conditions, it is unlikely that public accountants will be able to comply fully with this objective. However, they may partially comply by determining the extent and effectiveness of the work of the company's internal auditors or outside accountants in the design and development phases.

Management policies

- **Objective 1:** To provide reasonable assurance that systems/applications carry out the policies management has prescribed for them.

Policies on what is expected of automated systems should be established by management, and the auditor should determine whether they are being adhered to in design. The auditor should ascertain whether an appropriate approval process is being followed, both in developing new systems and in modifying existing systems. The auditor should consider the need for approval of a system's design by data processing management, user groups, and other groups whose data and reports may be affected. Also, the auditor should review the provisions for security required by management to protect data and programs against unauthorized access and modification.

If management's requirements are not being met, or have not been clearly articulated, the auditor must report such shortcomings to officials who can take corrective action. Frequently in the past, efforts to make new systems/applications operational by scheduled dates have resulted in some elements or controls—that were desired by management—being set aside by designers for later consideration. Auditors, in retaining their independence during the design and development processes, should report such actions to top management for resolution.

Audit trail

- **Objective 2:** To provide reasonable assurance that systems/applications provide the controls and audit trails needed for management, auditor, and operational review.

In financial applications, a transaction must be capable of being traced from its initiation, through all the intermediate processing steps, to the resulting financial statements. Similarly, information in the financial statements must be traceable to its origin. Such capability is referred to by various terms—such as audit trail, management trail, transaction trail—and is also highly essential in nonfinancial systems/applications. The reliability of the output can be properly assessed when the transaction processing flow can be traced and the controls over it (both manual and automated) can be evaluated.

During the design and development process, the auditor may provide, through formal correspondence, suggested audit trails or other controls to the design/development team. By doing so through formal correspondence, the auditor will remain independent.

Audit of the systems design and development processes can help assure management that this capability is in fact being built into the systems/applications.

Controls

- Objective 3: To provide reasonable assurance to management that systems/applications include the controls necessary to protect against loss or serious error.

The system design and development processes include (1) defining the processing to be done by a computer, (2) designing the processing steps, (3) determining the data input and files that will be required, and (4) specifying each individual program's input data and output. Each area must be properly controlled, in consonance with good management practices, and the auditor's review of these matters is designed to provide reasonable assurance to management that the systems/applications, once placed in operation, will be protected against loss or serious error.

Properly designed systems, with excellent control mechanisms built in, might have these controls bypassed or overridden by management direction. (This area is addressed under standards in chapter VI for computer-related auditing.) This has occurred in systems that were recently implemented and put into operation. Many times the designers and developers override such controls to get the system operational and then forget to activate the controls after the system errors have been corrected.

Almost every system has manual aspects (for example, input origination, output disposition), and these, together with the electronic data processing controls, are considered when the auditor is reviewing system controls for adequacy.

Efficiency and economy

- Objective 4: To provide reasonable assurance that systems/applications will be efficient and economical in operation.

Determining whether an organization is managing and using its resources (such as personnel, property, space) efficiently and economically and reporting on the causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structures, is considered here as a basic characteristic of government program audits. With the development of complex systems/applications, the auditor's review should also focus on whether the system has been developed in such a way

that operations will produce desired results at minimum cost. For example, early in a system's development, the auditor should review the adequacy of the (1) statement of mission needs and system objectives, (2) feasibility study and evaluation of alternative designs to meet those needs and objectives, and (3) cost-benefit analysis which attributes specific benefits and costs to system alternatives.

Legal requirements

- Objective 5: To provide reasonable assurance that systems/applications conform with legal requirements.

Legal requirements applicable to systems/applications may originate from various sources. One such requirement is compliance with State and Federal privacy statutes, which restrict collection and use of certain types of information about individuals. Safeguards are obviously necessary in such systems. Conversely, organizations subject to the Freedom of Information Act should have systems/applications designed so that appropriate and timely response can be made to legitimate requests. The applicability of the Federal Information Processing Standards (required by Public Law 87-306, Oct. 1965) program to the system involved should also be considered by the auditor. If such standards apply, they should be included in the auditor's review.

Once again, auditor review of the design and development processes can help assure management that these requirements have been considered and satisfied.

Documentation

- Objective 6: To provide reasonable assurance that systems/applications are documented in a manner that will provide the understanding of the system required for appropriate maintenance and auditing.

The auditor should determine whether the design, development, and modification procedures produce documentation sufficient to define (1) the processing that must be done by programs in the system, (2) the data files to be processed, (3) the reports to be prepared, (4) the instructions to be used by computer operators, and (5) the instructions to user groups for preparation and control of data. The auditor should also ascertain whether management policy provides for evaluation of documentation and adequate testing of the system before it is made operational. These steps are taken to ensure that the system and its controls can be relied on.

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The methods of achieving these six objectives are determined by the circumstances of each situation. Generally, audit work covers reviewing the

adequacy of management policies—examining approvals, documentation, test results, cost studies, and other data to see whether management policies are followed and legal requirements met—and determining whether the systems/applications have the necessary controls and trails.

The auditor should not become part of the system design/development team to perform work under this objective. Auditor involvement should be limited to reviewing the team's work as it occurs and reporting to management an objective evaluation of the work.

At the completion of the design and development processes, and during final system testing phases, the auditor should verify that the implemented system conforms with these six objectives.

On all audits of programs, activities, and functions supported by existing computer-based systems, the auditor shall follow the general and application standards for computer-related auditing. If, during an audit, the auditor finds indications that the system objectives—as set forth in this objective—are not being met or have changed, this should be reported to appropriate officials.

Glossary

Abuse	Furnishing excessive services to beneficiaries; violating program regulations; and performing improper practices, none of which involves prosecutable fraud.
Audit	A term used to describe not only work done by accountants and auditors in examining financial statements, but also work done in reviewing (1) compliance with laws and regulations, (2) economy and efficiency of operations, and (3) effectiveness in achieving program results.
Audit plan or schedule	A schedule of individual audits to be conducted and/or contracted for over a normal audit cycle. A normal audit cycle is defined by the audit organization: 1-year, 2-year, etc.
Audit program	The detailed steps and procedures to be followed in conducting the audit and preparing the report. A written audit program should be prepared for each audit and it should include such information as the purpose and scope of the audit, background information needed to understand the audit objectives and the entity's mission, definition of any unique terms or abbreviations used by the entity, objectives of the audit, and the audit and reporting procedures to be followed.
Audit standards	General measures of the quality and adequacy of the work performed. They also relate to the auditor's professional qualities.
Auditor	The term as used in this statement refers to the auditor as well as the audit organization unless otherwise indicated in this statement.
Auditor's opinion	An expression in the auditor's report as to whether the information in the financial statement of the entity is presented fairly in accordance with generally accepted accounting principles (or with other specified accounting principles applicable to the auditee) applied on a basis consistent with that of the preceding reporting period.

Competence	A term pertaining to evidence; it should be valid and relevant.
Compliance	A determination of whether (1) there is compliance with laws and regulations that could materially affect the entity's financial position and statements, (2) there is compliance with laws and regulations that could significantly affect the acquisition, management, and utilization of the entity's resources, and (3) programs are being carried out in conformity with laws and regulations.
Comprehensive grant audit	An audit of an individual grant made in accordance with an individual Federal grant audit guide.
Computer-based information system	A general term to denote all the operations and procedures involved in the preparation and handling of source media, that contain data or the basic elements of information, according to precise rules. Includes using a device that is capable of accepting data in a prescribed form, processing it, and printing the results in a specified format.
Conclusions	The auditor's interpretations of the evidence stated in relation to the objectives.
Content	The fourth reporting standard for government economy and efficiency audits and program results audits. It requires, in part, that the audit report present the scope of the audit, the findings and conclusions, and recommended improvements when feasible and appropriate.
Contract audit	An examination and evaluation of government contracts for goods and services with private as well as nonprofit organizations.
Coordination	The working together by audit organizations in developing and carrying out individual audits. Such actions include continuous liaison, the exchange of audit techniques, and the development of audit schedules to minimize the amount of audit effort required.

Due professional care	The third general standard for government auditing.
Economy and efficiency audits	Audits which determine (a) whether the entity is managing and utilizing its resources (such as personnel, property, 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.
Elements of auditing	The three parts of an expanded scope audit: financial and compliance, economy and efficiency, and program results.
Evaluation	Ascertaining the value of something by comparing accomplishments with a standard or goal.
Evidence	The sixth examination and evaluation standard for government economy and efficiency audits and program results audits. It states that sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditor's judgments and conclusions regarding the organization, program, activity, or function. A written record of the auditor's work shall be retained in the form of working papers.
Examination	A term used to describe work done by accountants and auditors.
Examination and evaluation standards for economy and efficiency audits and program results audits	All the activities performed during the audit, other than preparing the report. These standards require that (1) the work be adequately planned, (2) assistants be properly supervised, (3) compliance with laws and regulations be reviewed, (4) the system of internal controls be evaluated, (5) general and application controls in computer-based systems be reviewed, (6) sufficient, competent, and relevant evidence be obtained, and (7) auditors be alert to situations or transactions that could be indicative of fraud, abuse, and illegal acts and if such evidence exists, extend audit steps and procedures to identify the effect on the entity's operations and programs.

Expanded scope audits	Audits that go beyond the traditional financial audit.
External impairments	One of the four general classes of impairments. These are external factors that can restrict the audit or interfere with an auditor's ability to form independent and objective opinions and conclusions.
Financial and compliance audits	Audits which determine (a) whether the financial statements of an audited entity present fairly the financial position and the results of financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.
Financially assisted programs	Any activities, services, projects, or processes of any agencies, commissions, councils, administrations, Government-owned corporations, or instrumentalities of any governments which provide assistance or benefits to other levels of government; public, quasipublic, private, profit, and nonprofit organizations and institutions; specialized groups and individuals (such as low-income, senior citizens, handicapped).
Findings/results	The result of information development; a logical pulling together of information and arriving at conclusions on the basis of the sum of the information about an organization, program, activity, function, condition, or other matter which was analyzed or evaluated and considered to be of interest, concern, or use to the entity. It need not be critical or be concerned only with deficiencies or weaknesses. Purely informational findings need not include conclusions. A finding could be the basis for recommendations for action by the entity, but a recommendation is not part of a finding.
Fraud	The obtaining of something of value, unlawfully, through willful misrepresentation.
Generally accepted accounting principles	Rules and procedures established by authoritative bodies or conventions that have evolved through custom and common usage. The National Council on

	<p>Governmental Accounting's Statement 1, "Governmental Accounting and Financial Reporting Principles" is generally acknowledged as the authoritative publication in the area of accounting for State and local government units. GAO's publication, "Accounting Principles and Standards for Federal Agencies" contains generally accepted accounting principles for the Federal agencies.</p>
Generally accepted government auditing standards	<p>Those audit standards set forth in the publication "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by GAO.</p>
General standards	<p>A term pertaining to (1) the qualifications of the assigned audit staff, (2) the audit organization's and the individual auditor's independence, and (3) the exercise of due professional care in conducting the audit and in preparing related reports.</p>
Governmental accountability	<p>The duty of those governments and agencies that are entrusted with public resources and the authority for applying them, to render a full accounting of their activities to the public.</p>
Government entity	<p>Generally means a:</p> <ul style="list-style-type: none"> — State department. — Municipality (for instance a city or town with its own incorporated government for local affairs). — County, independent school district, special district, or authority. — Nonprofit agency. — Regional planning agency or commission. — Federal agency.
Grantee	<p>A recipient of grant funds.</p>
Illegal acts	<p>Violations of laws.</p>
Independence	<p>The second general standard for government auditing. In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal or external impairments to independence, must be organizationally independent, and shall maintain an independent attitude and appearance.</p>

Internal control

This includes administrative control and accounting control. According to the AICPA, SAS No. 1, Section 320:

“Administrative control includes, but is not limited to, the plan of organization and the procedures and records that are concerned with the decision processes leading to management’s authorization of transactions. Such authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.

“Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently is designed to provide reasonable assurance that:

- “a. Transactions are executed in accordance with management’s general or specific authorization.
- “b. Transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements and (2) to maintain accountability for assets.
- “c. Access to assets is permitted only in accordance with management’s authorization.
- “d. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.”

Management, effectiveness, operational, compliance, or performance audits

Other terms used for economy and efficiency audits, and program results audits.

Materiality	The concept which refers to the significance of an item of information which could appear, does appear, or does not appear in a financial statement.
Organizational impairments	One of the four general classes of impairments. They concern the auditor's being sufficiently removed from political pressures within the organizational structure of a government.
Personal impairments	One of the four general classes of impairments. They involve circumstances in which auditors cannot be impartial because of their views or personal situations.
Planning	The first examination and evaluation standard for government auditing. This standard requires that the work is to be adequately planned. Adequate planning should include consideration of coordination with other government auditors, personnel to be used, work to be done, and the format and general content of the report.
Program evaluation	Goes beyond the review of program results. In its broadest sense, program evaluation involves not only appraising what is being accomplished in relation to costs but also whether the objectives of the programs are proper and suitable.
Program results audits	Audits which determine (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.
Qualifications	The first general standard for government auditing. The assigned staff must collectively possess (1) a knowledge of accounting and auditing theory and procedures and be able to apply it, (2) a knowledge of government organizations, programs, activities, and functions, and (3) the skills necessary for the audit.
Qualifications of public accountants	When public accountants are engaged for assignments requiring a professional opinion on financial statements, only qualified public accountants should be

engaged. Qualifications are deemed to be met by certified public accountants, or by public accountants licensed on or before December 31, 1970, or persons working for a certified public accounting firm, or a public accounting firm licensed on or before December 31, 1970.

Recommendations

The auditor's recommendations in the audit report for actions to improve problem areas noted in the audit and to improve operations.

Relevance

A term pertaining to evidence; the relationship of the information to its use.

Report (audit)

- (1) The auditor's report in a financial audit—the medium through which an auditor expresses an opinion or, if circumstances require, disclaims an opinion.

In either case, the auditor states whether the examination was made in accordance with generally accepted auditing standards. These standards require a statement as to whether, in the auditor's opinion, the financial statements are presented in conformity with generally accepted accounting principles and whether such principles have been consistently applied in the preparation of the financial statements of the current period in relation to those of the preceding period.

- (2) The auditor's report in other than financial audits—the medium through which an auditor communicates the results (findings) of the audits. The report contains conclusions, positions, and recommendations based on the audit.
- (3) Other special auditors' reports—the medium through which auditors communicate information required of them by the audit engagement—include "Statement on Compliance," "Statement on Internal Control," and so forth.

Reporting standards for economy and efficiency audits and program results audits	The form, distribution, timeliness, and contents of the report.
Review	To study specific activities or operations to the extent necessary to achieve the objectives of the economy and efficiency audit or the program results audit. This includes exploring and developing all pertinent and significant information necessary to properly consider, support, and present findings, conclusions, and recommendations.
Scope (audit report)	A section in the audit report which indicates the type of audit made; the extent of the audit; and the specific organizations, programs, activities, and functions covered.
Scope impairment	One of the four general classes of impairments. These are external factors that can restrict the audit or interfere with the auditor's ability to form objective opinions and conclusions.
Sufficiency	The presence of enough competent evidence to provide the auditor with a reasonable basis for forming opinions, judgments, and conclusions.
Supervision	This standard for government auditing requires that assistants be properly supervised. Supervisors must ensure that less skilled staff members receive training and guidance in doing their work and that all staff clearly understand their tasks and what the work is expected to accomplish.
Survey	A process to gather information, without detailed verification, on the entity being audited. It is designed to identify problem areas warranting additional review and to obtain information for use in planning and accomplishing the audit. The concepts and procedures of the audit survey are discussed in GAO Audit

Standards Supplement No. 11, "The Audit Survey—A Key Step in Auditing Government Programs."

Timeliness

This standard for government auditing states that reports are to be issued on or before the dates specified by law, regulation, or other special arrangement and, in any event, as promptly as possible so as to make the information available for timely use by management and by legislative officials.

Working papers

They provide support for the auditor's opinions, conclusions, and judgments and they aid in the conduct and review of the auditor's work. They include the collection of schedules, papers, analyses, correspondence, and other material prepared or obtained by the auditor during the audit.

Index

ADP audit standards for economy and efficiency audits and program results audits

Application controls 9, 40-41, 43-44, 62
 Conformance with standards and approved design 43
 Tests for control weaknesses 43-44

Examination and evaluation standard 9, 40-44

General controls 9, 40-43, 62
 Hardware controls 43
 Operating systems controls 42
 Organizational controls 41
 Physical facilities, personnel, and security controls 41-42

ADP systems design and development objective

Audit trails 59-62
Auditors' role 40, 57-58, 62
Controls 40, 58-62
Documentation 61-62
Economy and efficiency 60-62
Legal requirements 61-62
Management policies 59, 61-62

AICPA statements on auditing standards

Financial and compliance audits 1, 7, 24, 30

Audit plan—see planning

Audit program—see planning

Audit reports

Financial audit 70
Other than financial audit 70
Other special 70
Reporting standards for 7-11, 24, 27-31, 48-56

Audit standards

Basic premises 4-5
Economy and efficiency audits 3, 6, 8-14, 16-22, 32-56
Examination and evaluation 7-9, 24-27, 32-47
Financial and compliance audits 3, 6-8, 12-13, 16-22, 24-31
General 6, 16-22, 67
Purpose of 1-2

Program results audits	3, 6, 8-15, 16-22, 32-56
Reporting	7-11, 24, 27-31, 48-56
Scope of	2-4
Scope of audit work	6, 12-15
Summary of	6-11, 63

Audit survey—see planning

Compliance

Economy and efficiency audits	4, 8, 10, 12-13, 37-38, 50-51, 64
Financial and compliance audits	4, 7-8, 12-13, 25, 28, 64
Legal and regulatory requirements	7-8, 10, 12-13, 25, 37-38, 50-51
Nature and purpose	13, 37
Planning audit coverage	12-13, 24-25, 33, 37-38
Positive and negative assurances	8, 10, 28, 50-51
Program results audits	4, 8, 10, 12-13, 37-38, 50-51, 64
Review of	7-8, 12-13, 25, 37-38
Statement on	8, 10, 28, 50-51

Conclusions

Economy and efficiency audits	9-11, 14, 17, 19, 22-23, 37, 44, 46, 48, 50, 53-56, 64
Program results audits	9-11, 15, 17, 19, 22-23, 37, 44, 46, 48, 50, 53-56, 64

Due professional care

Choice of tests and procedures	21-22
Exercise of	4, 12, 21-22
Followup on previous findings	22, 48, 52
General standard	6, 21-22, 67
Quality of audit work and reports	22

Economy and efficiency audits

Element of expanded scope auditing	3, 6, 12-14
Examination and evaluation standards for	8-9, 32-47, 65
General objectives of	14
General standards for	6, 16-22, 67
Other terms for	12
Reporting standards for	9-11, 48-56, 71
Review of compliance	8, 12-13, 37-38
Scope of audit work standard for	6, 12-14

Effectiveness audits	12, 68
-----------------------------------	--------

Elements of audit

Economy and efficiency 3, 5, 6, 12-14, 50, 65
Expanded scope audits 3-4, 6, 12-15, 66
Financial and compliance 3-6, 12-13, 65
Program results 3, 5, 6, 12-15, 50, 65
Scope of audit work standards 6, 12-15

Evidence

Analytical 44-45
Competence of 9, 44-46, 64
Documentary 44
Examination and evaluation standard 9, 44-47
Physical 44
Relevance of 9, 44-46, 70
Sufficiency of 9, 44-45, 71
Testimonial 44
Types of 44-45
Working papers 7, 9, 25-26, 36-37, 44-47, 72

Examination and evaluation standards for economy and efficiency audits and program results audits

Auditing computer-based systems 9, 40-44
Evidence 9, 44-47, 65
Fraud, abuse, and illegal acts 9, 47, 63, 66, 67
Internal control 8-9, 38-39, 68
Legal and regulatory requirements 8, 37-38
Planning 8, 32-36, 69
Supervision 8, 36-37, 71

Examination and evaluation (field work) standards for financial and compliance audits

Additional standards and requirements 7, 24-27
 Fraud, abuse, and illegal acts 7, 26-27, 63, 66, 67
 Internal control 29-30, 68
 Legal and regulatory requirements 7, 25
 Planning 7, 24, 69
 Working papers 7, 25-26, 72
AICPA statements on auditing standards 1, 7, 24, 30

Expanded scope audits

Economy and efficiency audits 3, 6, 12-14, 32-56, 65
Elements of 3, 6, 12-15, 50, 65
Examination and evaluation standards for 7-9, 24-27, 32-47
Financial and compliance audits 3, 6, 12-13, 24-31, 66

General objectives of	13-15
General standards for	6, 16-22, 67
Other terms	12
Program results audits	3, 6, 12-15, 32-56, 69
Reporting standards for	7-11, 24, 27-31, 48-56
Review of compliance	7-8, 12-13, 25, 37-38
Scope of audit work standard for	6, 12-15

Financial and compliance audits

AICPA statements on auditing standards	1, 7, 24, 30
Additional examination and evaluation standards for	7, 24-27
Additional reporting standards for	7-8, 27-31
Element of expanded scope auditing	3, 6, 12-13
General objectives of	13
General standards for	6, 16-22, 67
Review of compliance	7, 12-13, 25
Scope of audit work standard for	6, 12-13

Fraud, abuse, and illegal acts

Audit steps and procedures	7, 9, 26, 47
Economy and efficiency audits	9-10, 44, 47, 50-52, 54
Examination and evaluation standard	7, 9, 26-27, 47
Financial and compliance audits	7-8, 26-29
Internal auditors	29, 52
Law enforcement authorities	29, 52
Legal counsel	26, 29, 47, 52
Notification of	29, 52
Program results audits	9-10, 44, 47, 50-52, 54
Public accountants	29, 52
Reporting standard	8, 10, 28-29, 50-52
Sufficient evidence	47

Generally accepted accounting principles 3, 6, 12, 63, 66-67

General standards

Due professional care	6, 21-22, 65
Independence	6, 17-21, 67
Qualifications	6, 16-17, 69

Glossary 63-72

Government entity 67

Grantees/Recipients 67

Impairments

External 6, 17-19, 66
Organizational 6, 17-21, 69
Personal 6, 17-19, 69
Scope 7, 23, 71

Independence

External auditors 18, 20, 21
External impairments 6, 17-21, 66
General standard 6, 17-21, 67
Internal auditors 18-20
Organizational impairments 6, 17-21, 69
Personal impairments 6, 17-21, 69

Internal control

Accounting controls 8, 29-30, 39, 68
Administrative controls 8-10, 38-39, 49, 68
Economy and efficiency audits 8-10, 38-39, 49, 51
Examination and evaluation standard 8-9, 29-30, 38-39
Financial and compliance audits 8, 29-30
Internal auditing 39
Material weaknesses 8, 10, 29, 49, 51
Program results audits 8-10, 38-39, 49, 51
Reporting standard 8, 10, 29-30, 49, 51
Statement on 8, 10, 29-30, 51
Study and evaluation of 8, 29-30, 38-39

Legal and regulatory requirements

Compliance with 7-8, 10, 12-13, 25, 37
Compliance statements 8, 10, 28, 50-51
Economy and efficiency audits 8, 10, 12-13, 37-38, 50-51
Examination and evaluation standard 7-8, 25, 37-38
External administrative requirements 38
Financial and compliance audits 7-8, 12-13, 25, 28
Grant and contract arrangements 38
Legal counsel 25, 37
Legal or legislative data 38
Nature and purpose of 13, 37
Planning audit coverage 12-13, 24-25, 33, 37-38
Positive and negative assurances 8, 10, 28, 50-51
Program results audits 8, 10, 12-13, 37-38, 50-51

Reporting standard	8, 10, 28, 50-51
Review of	7-8, 12-13, 25, 37-38
Sources of information on	38
Management audits	12, 68
Operational audits	12, 68
Opinion	
Financial and compliance audits	4-5, 16-17, 19, 23, 25, 30, 63
Other specified accounting principles	63
Performance audits	12, 68
Planning	
Audit plan	63
Audit program	33-35, 37, 63
Audit survey	34, 71-72
Coordination	15, 32-33, 64
Economy and efficiency audits	8, 12-13, 32-36
Examination and evaluation standard	7-8, 24, 32-36
Financial and compliance audits	5, 7, 12-13, 24-25
Multiple-use audits	33
Personnel	32-34
Program results audits	8, 12-13, 15, 32-36
Reliance on other auditors	5, 25-26, 35-36, 39
Requirements of all levels of government	5, 7, 24, 32-33
Work to be performed	32, 34-35
Program results audits	
Element of expanded scope auditing	3, 6, 12-15
Examination and evaluation standards for	8-9, 32-47, 65
General objectives of	14-15
General standards for	6, 16-22, 67
Other terms for	12
Reporting standards for	9-11, 48-56, 71
Review of compliance	8, 12-13, 37-38
Scope of audit work standard for	6, 12-15
Qualifications	
All types of audit work	16-17

Consultants	16-17, 33
Financial audits	16-17
General standard	6, 16-17, 67
Government auditors	16-17
Professional proficiency	4, 6, 12, 16
Public accountants	16-17, 69-70
Skills	16-17
Training	16-17, 34, 36

Report content

Compliance statement	8, 10, 28, 50-51
Economy and efficiency audits	10-11, 49-54
Financial and compliance audits	7-8, 24, 27-31
Fraud, abuse, or illegal acts	8, 10, 28-29, 50-52, 63, 66, 67
Issues needing further study	10, 50, 53
Other reporting	8, 30
Positive and negative assurances	8, 10, 28, 50-51
Privileged and confidential information	8, 10-11, 31, 50, 53-54
Program results audits	10-11, 49-54
Recognition of noteworthy accomplishments	10, 50, 53
Recommendations	10, 14-15, 17, 48, 50, 52-53, 55-56, 70
Reporting standard	10-11, 49-54
Scope and objectives	10, 49-51, 71
Statement on auditing standards	8, 10, 27-28, 49, 51
Statement on internal control	8, 10, 29-30, 49, 51
Views of responsible officials	10, 50, 53

Report distribution

Classified material	27, 48
Economy and efficiency audits	9, 48-49
Ethical considerations	4, 7, 9, 27, 48
Financial and compliance audits	7, 27
Internal auditors	27, 49
Legal restrictions	4, 7, 9, 27, 48
Program results audits	9, 48-49
Public accountants	27, 49
Public inspection	7, 9, 27, 48
Reporting standard	7, 9, 27, 48-49

Report form

Economy and efficiency audits	9, 48
Program results audits	9, 48
Reporting standard	9, 48

Written reports 7, 9, 27, 48-49

Report presentation

Accuracy and adequacy of support 11, 54-55
Clarity and simplicity 11, 54-56
Completeness 11, 54, 56
Conciseness 11, 54, 56
Constructiveness of tone 11, 54, 56
Convincingness 11, 54-55
Economy and efficiency audits 11, 54-56
Objectivity 11, 54-55
Program results audits 11, 54-56

Report timeliness

Economy and efficiency audits 10, 49
Interim reporting 49
Program results audits 10, 49
Reporting standard 10, 49

Reporting standards for economy and efficiency audits and program results audits

Content 10-11, 49-54, 64
Distribution 9, 48-49
Form 9, 48
Timeliness 10, 49, 72

Reporting standards for financial and compliance audits

Additional standards and requirements 7-8, 27-31
 Distribution 7, 27
 Other reporting 8, 30
 Privileged and confidential information 8, 31
 Statement on auditing standards 8, 27-28
 Statement on compliance and fraud, abuse, or
 illegal acts 8, 28-29, 63, 66, 67
 Statement on internal control 8, 29-30
AICPA statements on auditing standards 1, 7, 24, 30

Scope of audit work

Economy and efficiency audits 3, 6, 12-14
Expanded scope auditing 3-4, 6, 12-15
Financial and compliance audits 3, 6, 12-13
General objectives 13-15
Program results audits 3, 6, 12-15

Review of compliance	7-8, 12-13, 25, 37-38
Scope of audit work standard	6, 12-15

Scope impairments	7, 23, 71
--------------------------------	-----------

Supervision

Assignment and use of assistants	36
Economy and efficiency audits	8, 36-37
Examination and evaluation standard	8, 36-37
Program results audits	8, 36-37
Provide training	33, 36
Supervisory review	22, 37
Supervisor's role	36

Working papers

Access to	26, 36
Clarity and understandability	26, 46
Completeness and accuracy	26, 46
Evidence	7, 9, 25, 37, 44-47
General guidelines for preparation	26, 46-47
Legibility and neatness	26, 46
Relevance	26, 46-47, 70
Reliance on other auditors	5, 25-26, 35-36

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