

A U D I T
GUIDE

MARCH 1, 2017

*Government
Auditing
Standards and
Single Audits*

AICPA®

A Resource of the
Enhancing Audit
Quality Initiative



AICPA®

A U D I T
GUIDE

MARCH 1, 2017

*Government
Auditing
Standards and
Single Audits*

AICPA®

A Resource of the
**Enhancing Audit
Quality Initiative**



AICPA®

Copyright © 2017 by
American Institute of Certified Public Accountants, Inc.
New York, NY 10036-8775

All rights reserved. For information about the procedure for requesting permission to make copies of any part of this work, please e-mail copyright@aicpa.org with your request. Otherwise, requests should be written and mailed to the Permissions Department, AICPA, 220 Leigh Farm Road, Durham, NC 27707-8110.

1 2 3 4 5 6 7 8 9 0 AAP 1 9 8 7

ISBN 978-1-94549-844-2

Preface



For guidance regarding performing audits under OMB Circular A-133, the AICPA is continuing to offer the 2015 edition of the Audit Guide *Government Auditing Standards and Single Audits*.

(Updated as of March 1, 2017)

About AICPA Guides

This AICPA Guide presents guidance for the audits of financial statements conducted in accordance with *Government Auditing Standards, December 2011 Revision* (also referred to as the Yellow Book), issued by the Comptroller General of the United States of the U.S. Government Accountability Office. It also presents the recommendations of the AICPA Single Audit Working Group for the conduct of audits in accordance with the Single Audit Act and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

AICPA Guides may include certain content presented as "Supplement," "Appendix," or "Exhibit." A supplement is a reproduction, in whole or in part, of authoritative guidance originally issued by a standard setting body (including regulatory bodies) and applicable to entities or engagements within the purview of that standard setter, independent of the authoritative status of the applicable AICPA Guide. Both appendixes and exhibits are included for informational purposes and have no authoritative status.

An AICPA guide containing auditing guidance related to generally accepted auditing standards (GAAS) is recognized as an interpretive publication as defined in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of GAAS in specific circumstances, including engagements for entities in specialized industries.

Interpretive publications are issued under the authority of the AICPA Auditing Standards Board (ASB) after all ASB members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with GAAS. The members of the ASB have found the auditing guidance in this guide to be consistent with existing GAAS.

Although interpretive publications are not auditing standards, AU-C section 200 requires the auditor to consider applicable interpretive publications in planning and performing the audit because interpretive publications are relevant to the proper application of GAAS in specific circumstances. If the auditor does not apply the auditing guidance in an applicable interpretive publication, the auditor should document how the requirements of GAAS were complied with in the circumstances addressed by such auditing guidance.

The ASB is the designated senior committee of the AICPA authorized to speak for the AICPA on all matters related to auditing. Conforming changes made to the auditing guidance contained in this guide are approved by the ASB chair (or his or her designee) and the Director of the AICPA Audit and Attest Standards staff. Updates made to the auditing guidance in this guide exceeding that of conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the guide is consistent with the Statements on Auditing Standards (SASs).

Any auditing guidance in a guide appendix or chapter appendix in a guide, or in an exhibit, while not authoritative, is considered an "other auditing publication." In applying such guidance, the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. Although the auditor determines the relevance of other auditing guidance, auditing guidance in a guide appendix or exhibit has been reviewed by the AICPA Audit and Attest Standards staff and the auditor may presume that it is appropriate.

An AICPA Guide containing attestation guidance is recognized as an interpretive publication as defined in AT-C section 105, *Concepts Common to All Attestation Engagements* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of the Statements on Standards for Attestation Engagements (SSAEs) in specific circumstances, including engagements for entities in specialized industries. Interpretive publications are issued under the authority of the ASB. The members of the ASB have found the attestation guidance in this guide to be consistent with existing SSAEs.

A practitioner should be aware of and consider the guidance in this AICPA Guide applicable to his or her attestation engagement. If the practitioner does not apply the attestation guidance included in an applicable AICPA Guide, the practitioner should be prepared to explain how he or she complied with the SSAE provisions addressed by such attestation guidance.

Any attestation guidance in a guide appendix or chapter appendix in a guide, or in an exhibit, while not authoritative, is considered an "other attestation publication." In applying such guidance, the practitioner should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. Although the practitioner determines the relevance of other attestation guidance, such guidance in a guide appendix or exhibit has been reviewed by the AICPA Audit and Attest Standards staff and the practitioner may presume that it is appropriate.

The ASB is the designated senior committee of the AICPA authorized to speak for the AICPA on all matters related to attestation. Conforming changes made

to the attestation guidance contained in this guide are approved by the ASB chair (or his or her designee) and the Director of the AICPA Audit and Attest Standards staff. Updates made to the attestation guidance in this guide exceeding that of conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the guide is consistent with the SSAEs.

Purpose and Applicability

This guide provides guidance (chapters 1–4) on the auditor's responsibilities when conducting an audit of financial statements in accordance with *Government Auditing Standards*. This guide has been prepared using the *Government Auditing Standards, December 2011 Revision*.

Financial statement audits of state and local governments are often required to be performed in accordance with *Government Auditing Standards* because they are subject to the Uniform Guidance, or because state and local laws and regulations require it. Because an audit of a government's financial statements under the provisions of the AICPA Audit and Accounting Guide *State and Local Governments* is based on opinion units, the auditor's consideration of items, such as materiality and internal control over financial reporting, in planning, performing, evaluating the results of, and reporting on the audit of a government's basic financial statements, should address each opinion unit. This guide does not provide specific guidance related to auditing state and local governmental entities in accordance with GAAS; however, the concept of opinion units should be considered when applying the guidance in chapters 1–4 of this guide to the financial statement audit of an entity subject to the provisions of Audit and Accounting Guide *State and Local Governments*. See that guide for information on performing a GAAS audit of a governmental entity.

Concerning an audit of financial statements in accordance with *Government Auditing Standards*, this guide

- describes the applicability of *Government Auditing Standards*.
- discusses the relationship between GAAS and *Government Auditing Standards*.
- discusses the standards and guidance found in chapters 1–4 of *Government Auditing Standards*, with an emphasis on the standards for financial audits.
- describes the auditor's responsibility for considering internal control over financial reporting, compliance with applicable federal statutes, regulations, and provisions of contracts and grants agreements, fraud, and abuse.
- describes the auditor's responsibility for reporting and other communications and provides examples of the required auditor's reports.

It also provides guidance (chapters 1 and chapters 5–14) on the auditor's responsibilities when conducting a single audit or program-specific audit in accordance with the Single Audit Act and the Uniform Guidance. This guide was originally issued as Statement of Position (SOP) 98-3, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards*, in March 1998 and updated annually for conforming changes for relevant guidance contained in authoritative auditing standards and other requirements.

The AICPA converted SOP 98-3 into an audit guide in 2003. That conversion did not supersede the guidance that appeared in SOP 98-3 but only changed its format.

Concerning an audit of federal awards in accordance with the Uniform Guidance,¹ this guide

- describes the applicability of and provides an overview of the requirements of the Single Audit Act and the Uniform Guidance.
- discusses the relationship between *Government Auditing Standards* and the Uniform Guidance.
- describes the auditor's additional responsibilities for considering internal control over compliance with direct and material compliance requirements; performing tests of compliance with those requirements; and performing procedures on the schedule of expenditures of federal awards.
- discusses considerations in designing an audit approach that includes audit sampling to achieve both compliance and internal control over compliance related audit objectives in a compliance audit performed under the Uniform Guidance.
- describes the auditor's responsibilities in a program-specific audit.
- describes the auditor's responsibility for reporting and provides examples of the required auditor's reports.
- provides guidance on applying GAAS in a Uniform Guidance compliance audit and adapts that guidance, as appropriate, to the objectives of that compliance audit.²

Recognition

**2017 Guide Edition
AICPA Senior Committee
Auditing Standards Board**

Gerry Boaz, ASB Member
Mike Santay, *Chair*

The AICPA gratefully acknowledges those members of the AICPA Governmental Audit Quality Center (GAQC) Executive Committee, who reviewed or otherwise contributed to the development of this edition of the guide: Ronald A.

¹ In this guide, the use of the phrases *single audit* or *audit in accordance with the Uniform Guidance* includes both the financial statement audit and the compliance audit that is performed under Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The use of the term *Uniform Guidance compliance audit* includes only the compliance audit that is performed under the Uniform Guidance audit requirements.

² AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*), states that when performing a compliance audit, the auditor, using professional judgment, should adapt and apply the AU-C sections to the objectives of a compliance audit, except for the AU-C sections listed in the appendix, "AU-C Sections That Are Not Applicable to Compliance Audits," of AU-C section 935. This appendix notes that the AU-C sections identified as not applicable to a compliance audit are identified as such either because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in paragraph .12 of AU-C section 935. Part II of this audit guide includes the appropriate AU-C sections as adapted for a Uniform Guidance compliance audit.

Conrad, Brittney Williams, Jeff Winter, and the chair of the Executive Committee, Erica Forhan. In addition, the AICPA gratefully acknowledges others who have contributed to the development of this edition: Ralph DeAcetis, John Good, Terry Ramsey, and George A. Rippey.

AICPA Staff

Susan Reed

Technical Manager

Accounting and Auditing Content Development

Teresa Bordeaux

Lead Technical Manager

Governmental Auditing and Accounting

Guidance Considered in This Edition

This edition of the guide has been modified by AICPA staff to include certain changes necessary due to the issuance of authoritative guidance since the guide was originally issued and other revisions as deemed appropriate. Relevant guidance issued through March 1, 2017, has been considered in the development of this edition of the guide. However, this guide does not include all audit, reporting, and other requirements applicable to an entity or a particular engagement. This guide is intended to be used in conjunction with all applicable sources of relevant guidance.

Relevant guidance that is issued and effective on or before March 1, 2017, is incorporated directly in the text of this guide. Relevant guidance issued but becoming effective on or before June 30, 2017, is also presented directly in the text of the guide, but shaded gray and accompanied by a footnote indicating the effective date of the new guidance. The distinct presentation of this content is intended to aid the reader in differentiating content that may not be effective for the reader's purposes (as part of the guide's "dual guidance" treatment of applicable new guidance).

Relevant guidance issued but not yet effective as of the date of the guide and not becoming effective until after June 30, 2017, is referenced in a "guidance update" box; that is, a box that contains summary information on the guidance issued but not yet effective.

In updating this guide, all guidance issued up to and including the following was considered, but not necessarily incorporated, as determined based on applicability:

- SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, AU-C sec. 570)
- SAS No. 131, *Amendment to Statement on Auditing Standards No. 122 Section 700, Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 700)
- SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 940)
- Interpretations issued (or reissued) through March 1, 2017

- The Single Audit Act Amendments of 1996³
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
- *Government Auditing Standards, December 2011 Revision*
- Council on Financial Assistance Reform (COFAR) *Frequently Asked Questions (FAQ)*, issued up through March 1, 2017

Users of this guide should consider guidance issued subsequent to those items listed previously to determine their effect, if any, on entities covered by this guide. In determining the applicability of recently issued guidance, its effective date should also be considered.

The changes made to this edition of the guide are identified in the Schedule of Changes appendix. The changes do not include all those that might be considered necessary if the guide was subjected to a comprehensive review and revision.

Terms Used to Define Professional Requirements in This AICPA Guide

Any requirements described in this guide are normally referenced to the applicable standards or regulations from which they are derived. Generally the terms used in this guide describing the professional requirements of the referenced standard setter (for example, the ASB) are the same as those used in the applicable standards or regulations (for example, *must* or *should*).

The Uniform Guidance use of terms to define professional requirements is somewhat different than the use of these terms in GAAS and *Government Auditing Standards*. The use of the term *must* in the Uniform Guidance indicates a requirement. This is consistent with the use of the term *must* in GAAS and *Government Auditing Standards*. The use of the term *should* in the Uniform Guidance indicates a best practice or recommended approach. However, GAAS and *Government Auditing Standards* use the term *should* to indicate a presumptively mandatory requirement. An auditor must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant, except in rare circumstances. In this guide, the term ***should***, when italicized and bolded, indicates a best practice or recommended approach in the Uniform Guidance. This is intended to differentiate it from the term "should" used throughout the guide to refer to presumptively mandatory requirements in GAAS and *Government Auditing Standards*.

Readers should refer to the applicable standards and regulations for more information on the requirements imposed by the use of the various terms used to define professional requirements in the context of the standards and regulations in which they appear.

Certain exceptions apply to these general rules, particularly in those circumstances when the guide describes prevailing and/or preferred industry practices for the application of a standard or regulation. In these circumstances, the applicable senior committee responsible for reviewing the guide's content believes the guidance contained herein is appropriate for the circumstances.

³ This guide uses the term *Single Audit Act* when referencing this legislation.

Applicability of Quality Control Standards

QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*), addresses a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. A system of quality control consists of policies that a firm establishes and maintains to provide it with reasonable assurance that the firm and its personnel comply with professional standards, as well as applicable legal and regulatory requirements. The policies also provide the firm with reasonable assurance that reports issued by the firm are appropriate in the circumstances.

QC section 10 applies to all CPA firms with respect to engagements in their accounting and auditing practice. In paragraph .13 of QC section 10, an *accounting and auditing practice* is defined as "a practice that performs engagements covered by this section, which are audit, attestation, compilation, review, and any other services for which standards have been promulgated by the AICPA Auditing Standards Board (ASB) or the AICPA Accounting and Review Services Committee (ARSC) under the "General Standards Rule" (ET sec. 1.300.001) or the "Compliance With Standards Rule" (ET sec. 1.310.001) of the AICPA Code of Professional Conduct. Although standards for other engagements may be promulgated by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an *accounting and auditing practice*."

In addition to the provisions of QC section 10, readers should be aware of other sections within AICPA *Professional Standards* that address quality control considerations, including the following provisions that address engagement level quality control matters for various types of engagements that an accounting and auditing practice might perform:

- AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*)
- AT-C section 105
- AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AICPA, *Professional Standards*)

Because of the importance of engagement quality, this guide includes appendix B, "Overview of Statements on Quality Control Standards." This appendix summarizes key aspects of the quality control standard. This summarization should be read in conjunction with QC section 10, AU-C section 220, AT-C section 105, AR-C section 60, and the quality control standards issued by the PCAOB, as applicable.

AICPA.org Website

The AICPA encourages you to visit its website at www.aicpa.org and the Financial Reporting Center at www.aicpa.org/FRC. The Financial Reporting Center supports members in the execution of high-quality financial reporting. Whether you are a financial statement preparer or a member in public practice, this center provides exclusive member-only resources for the entire financial reporting process, and provides timely and relevant news, guidance, and examples supporting the financial reporting process. Another important focus of the

Financial Reporting Center is keeping those in public practice up to date on issues pertaining to preparation, compilation, review, audit, attestation, assurance and advisory engagements. Certain content on the AICPA's website referenced in this guide may be restricted to AICPA members only.

Governmental Audit Quality Center

The GAQC is a voluntary membership center for CPA firms and state audit organizations designed to improve the quality and value of governmental audits. For the purposes of the GAQC, governmental audits are performed under *Government Auditing Standards* and are audits and attestation engagements of federal, state, or local governments; not-for-profit entities; and certain for-profit organizations, such as housing projects and colleges and universities that participate in governmental programs or receive governmental financial assistance. The GAQC keeps members informed about the latest developments and provides them with tools and information to help them better manage their audit practice. Certain content on the GAQC's website referenced in this guide may be restricted to GAQC members only.

An Auditee Resource Center, open to the public, is also available on the GAQC website and provides information, practice aids, tools, and other resources that is of interest and benefit to auditees undergoing an audit performed under *Government Auditing Standards*.

For more information about the GAQC, visit the GAQC website at www.aicpa.org/GAQC.

Select Recent Developments Significant to This Guide

Attestation Clarity Project

To address concerns over the clarity, length, and complexity of its standards, the ASB established clarity drafting conventions and undertook a project to redraft all the standards it issues in clarity format. The redrafting of SSAEs, or attestation standards, in SSAE No. 18, *Attestation Standards: Clarification and Recodification* (AICPA, *Professional Standards*), represents the culmination of that process.

The attestation standards are developed and issued in the form of SSAEs and are codified into sections. SSAE No. 18 recodifies the "AT" section numbers designated by SSAE Nos. 10–17 using the identifier "AT-C" to differentiate the sections of the clarified attestation standards (AT-C sections) from the attestation standards that are superseded by SSAE No. 18 (AT sections). The clarified attestation standards found in AT-C sections of AICPA *Professional Standards* are effective for practitioners' reports dated on or after May 1, 2017.

Uniform Guidance

In December 2013, the Office of Management and Budget (OMB) issued the Uniform Guidance,⁴ which establishes uniform cost principles and audit requirements for federal awards to nonfederal entities and administrative

⁴ Some content in this guide refers to a specific section (or paragraph number) in the Uniform Guidance. An example of such section reference is 2 CFR 200.518.

requirements for all federal grants and cooperative agreements. Once the administrative requirements and cost principles of the Uniform Guidance are effective for all federal awards to nonfederal entities, the previous OMB guidance and requirements related to administrative requirements and cost principles will be superseded. Note that the cost principles for hospitals have not yet been incorporated into the Uniform Guidance.

The Uniform Guidance is effective for nonfederal entities for all federal awards and certain funding increments provided on or after December 26, 2014. The effective date provisions result in an auditor being required to test federal awards using the pre-Uniform Guidance administrative requirements and cost principles when testing awards awarded prior to December 26, 2014, and the Uniform Guidance administrative requirements and cost principles for federal awards and certain funding increments⁵ awarded on or after December 26, 2014. The effective date provisions of the Uniform Guidance administrative requirements and cost principles are not affected by the audit requirements used to perform the compliance audit.

The requirements in Subpart F, "Audit Requirements," of the Uniform Guidance are effective for audits of fiscal years beginning on or after December 26, 2014. See supplement B, "Uniform Guidance Audit Requirements," of this guide for a reprint of Subpart F. Single audits of periods prior to this effective date were required to be performed under Circular A-133.

The audit requirements applicable to an auditee that undergoes biennial audits is dependent on the beginning date of the biennial audit period. Similarly, the audit requirements for the audit of a short fiscal period is determined by the beginning date of the short fiscal period.

The COFAR website, <https://cfo.gov/cofar/cofar-resources/>, contains a number of documents to help nonfederal entities implement and transition to the Uniform Guidance, including links to the current Title 2, Part 200 of the Code of Federal Regulations (the Uniform Guidance), and a FAQ document. The following is some of the available guidance on the COFAR website:

- 2 CFR 200—Uniform Guidance
- "Uniform Guidance Crosswalk for Federal Agency Exceptions and Additions"
- FAQs

The following documents were previously available on the COFAR website but have been moved. Currently they are available at https://obamawhitehouse.archives.gov/omb/grants_docs:

- Uniform Guidance Crosswalk from Predominant Source in Existing Guidance (29 pages, 442 kb)
- Uniform Guidance Crosswalk to Predominant Source in Existing Guidance (10 pages, 282 kb)

⁵ The "Frequently Asked Questions" document issued by the Council on Financial Assistance Reform clarifies that federal awards made with modified award terms and conditions at the time of the incremental funding action are subject to the Uniform Guidance if that action occurred on or after December 26, 2014. Funding increments with no change to award terms and conditions continue to be subject to pre-Uniform Guidance administrative requirements and cost principles (for example, those found in Circular A-122, *Cost Principles for Non-Profit Organizations*) if the related award was made prior to December 26, 2014.

- Uniform Guidance Cost Principles Text Comparison (174 pages, 1.62 mb)
- Uniform Guidance Audit Requirements Text Comparison (46 pages, 731 kb)
- Uniform Guidance Definitions Text Comparison (76 pages, 476 kb)
- Uniform Guidance Administrative Requirements Text Comparison (123 pages, 1 mb)

Note that some documents on the COFAR website are based on the original guidance issued, and do not reflect the most current guidance. However, they may provide information to assist in understanding what revisions were made and the source of those revisions.

It is important that auditors access the most current version of the Uniform Guidance to ensure that any technical corrections and other revisions are included. The most up-to-date version of the Uniform Guidance is available in the Electronic Code of Federal Regulations (e-CFR) located at Title 2—Grants and Agreements, Chapter II (Parts 200–299).

This guide contains guidance and requirements regarding the compliance audit part of a single audit as found in the Uniform Guidance. The guide includes technical corrections issued up through the date of this guide, that is, March 1, 2017. The chapters related to a Uniform Guidance compliance audit are located in part II of this guide. Certain chapters of part II of this guide contain a section titled "Transition Considerations Related to the Uniform Guidance," that provides information regarding significant areas of change, or things to consider, as it relates to that chapter's content.

OMB Website

The OMB website was relaunched in conjunction with the presidential administration change. At the publication date of this guide key OMB documents were available in an archive location instead of their previous location. It is expected that links to these documents will be restored to the main OMB webpage in the future.

Prior to its relocation to the archive, the Compliance Supplement was available on the OMB website at www.whitehouse.gov/omb/circulars_default. The location as found in the archive is https://obamawhitehouse.archives.gov/omb/circulars_default.

Other Considerations Related to a Uniform Guidance Compliance Audit

The 2017 OMB *Compliance Supplement* (*Compliance Supplement*) was not finalized at the publication date of this guide. Therefore, information regarding revisions to the *Compliance Supplement* in this guide are based on the draft version. Users of the guide should refer to the final 2017 *Compliance Supplement* for the relevant information needed in performing the compliance audit.

The data collection form (Form SF-SAC) and Federal Audit Clearinghouse requirements have been revised to reflect the requirements of the Uniform Guidance. The current data collection form is applicable for fiscal periods beginning on or after December 26, 2014, to align with the effective date of the Uniform Guidance.

The Uniform Guidance audit requirements have been fully effective for more than a year now. However, auditors are cautioned to be sure that any practice aids and other documents used as part of the Uniform Guidance compliance audit have been updated accordingly. The changes to compliance audit requirements are extensive and any outdated practice aids or other documents used as part of the audit may not provide appropriate audit evidence for the audit.

Audits Performed Under Circular A-133

This guide does not contain information regarding performing a compliance audit under Circular A-133. If an auditor is engaged to perform a compliance audit of a prior period when the audit requirements under Circular A-133 were effective, guidance can be found in the 2015 edition of the Audit Guide Government Auditing Standards *and Single Audits*. See also Circular A-133, which is still available on the OMB website.

TABLE OF CONTENTS

Chapter		Paragraph
1	Introduction and Overview of <i>Government Auditing Standards</i>	.01-19
	Purpose and Applicability of This Guide .....	.01-11
	Overview of <i>Government Auditing Standards</i> .....	.12-19
	Applicability of <i>Government Auditing Standards</i> .....	.12-13
	Additional Requirements of <i>Government Auditing Standards</i> .....	.14-15
	Use of Terminology to Define <i>Government Auditing Standards</i> Requirements .....	.16-19
2	<i>Government Auditing Standards</i> —Ethical Principles and General Standards	.01-51
	Introduction .....	.01
	<i>Government Auditing Standards</i> —Ethical Principles .....	.02-05
	<i>Government Auditing Standards</i> —General Standards .....	.06-50
	Independence .....	.07-30
	Professional Judgment .....	.31-33
	Competence .....	.34-42
	Quality Control and Assurance .....	.43-45
	External Peer Review .....	.46-50
	Appendix— <i>Government Auditing Standards</i> Conceptual Framework for Independence .....	.51
3	Planning and Performing a Financial Statement Audit in Accordance With <i>Government Auditing Standards</i>	.01-71
	Introduction .....	.01-03
	Agreeing Upon the Terms of the Engagement With Management .....	.04-07
	Planning the Audit .....	.08-15
	Communications With Other Entities .....	.15
	Group Audits .....	.16
	Materiality .....	.17-18
	Audit Documentation .....	.19-22
	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement .....	.23-31
	The Entity's Internal Control .....	.25-28
	Identifying and Assessing the Risks of Material Misstatement .....	.29-31
	Performing Audit Procedures and Evaluating Audit Evidence Obtained .....	.32-35
	Tests of Controls .....	.34-35
	Consideration of Fraud .....	.36-42
	Assessing the Risk of Material Misstatements Resulting From Fraud .....	.40-42

Chapter		Paragraph
3	Planning and Performing a Financial Statement Audit in Accordance With <i>Government Auditing Standards</i> —continued	
	Consideration of Laws and Regulations in an Audit of Financial Statements .....	.43-.52
	Consideration of Abuse .....	.53-.58
	Evaluating Identified Misstatements .....	.59
	Developing Elements of a Finding .....	.60
	The Auditor’s Communication With Those Charged With Governance .....	.61-.65
	Communicating Internal Control Matters Identified in an Audit .....	.66
	Written Representations From Management .....	.67-.68
	Other Considerations .....	.69-.70
	Exit Conference .....	.69-.70
	Appendix—Examples of Deficiencies in Internal Control .....	.71
4	Auditor Reporting Requirements and Other Communication Considerations of <i>Government Auditing Standards</i> .....	.01-.88
	Introduction .....	.01
	Report on the Financial Statements—GAAS Requirements .....	.02-.04
	Additional Reporting Requirements of <i>Government Auditing Standards</i> .....	.05-.06
	Reporting on Internal Control Over Financial Reporting and on Compliance .....	.07-.12
	Internal Control Over Financial Reporting .....	.13-.23
	Fraud, Noncompliance With Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse .....	.24-.45
	Fraud .....	.25-.30
	Noncompliance With Laws and Regulations .....	.31-.34
	Noncompliance With Provisions of Contracts and Grant Agreements and Abuse .....	.35-.38
	Other Considerations .....	.39
	Additional Considerations Related to Fraud, Noncompliance With Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse .....	.40-.42
	<i>Government Auditing Standards</i> —Reporting Findings Directly to Parties Outside the Entity .....	.43-.45
	Report on Audited Financial Statements .....	.46-.52
	Other Considerations—Citing Compliance With <i>Government Auditing Standards</i> in the Auditor’s Report .....	.49-.51
	Other Reporting Responsibilities in an Audit of Financial Statements .....	.52
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	.53-.54

Chapter		Paragraph
4	Auditor Reporting Requirements and Other Communication Considerations of <i>Government Auditing Standards</i> —continued	
	Other Reporting and Communication Considerations .....	.55-.83
	Findings—Deficiencies in Internal Control, Noncompliance With Provisions of Laws, Regulations, Contracts and Grant Agreements, Fraud, and Abuse .....	.55-.62
	Reporting Views of Responsible Officials and Planned Corrective Action .....	.63-.66
	Distributing Reports .....	.67
	Reporting Confidential and Sensitive Information .....	.68-.71
	Other Written Communications .....	.72-.73
	Portions of the Entity Not Audited in Accordance With <i>Government Auditing Standards</i> .....	.74-.76
	Referring to the Work of a Component Auditor .....	.77-.83
	Freedom of Information Act and Similar Laws and Regulations .....	.84-.85
	Assurance to Regulators and Oversight Agencies .....	.86-.87
	Appendix—Illustrative Auditor’s Reports Under <i>Government Auditing Standards</i> .....	.88
5	Overview of the Single Audit Act, the Uniform Guidance Audit Requirements, and the Compliance Supplement	.01-.56
	Introduction .....	.01-.02
	Uniform Guidance .....	.03
	Single Audit Act and Uniform Guidance Audit Requirements .....	.04-.47
	Objectives of a Single Audit .....	.04-.08
	General Audit Requirements .....	.09-.20
	Reporting Matters .....	.21-.23
	Auditor Selection and Audit Costs .....	.24-.25
	Basis for Determining When Federal Awards Are Expended .....	.26-.27
	Subrecipient and Contractor Determinations .....	.28
	Major Program Determination .....	.29-.32
	Auditee Responsibilities .....	.33-.39
	Federal Awarding Agency Responsibilities .....	.40
	Pass-Through Entity Responsibilities .....	.41
	Cognizant Agency for Audit .....	.42-.43
	Oversight Agency for Audit .....	.44-.45
	Program-Specific Audits .....	.46
	Required Government-wide Evaluation of Single Audit Quality .....	.47
	OMB Compliance Supplement .....	.48-.49
	Transition Considerations Related to the Uniform Guidance ....	.50-.56
	Frequently Asked Questions .....	.55
	Reference Materials .....	.56

Chapter		Paragraph
6	Auditor Planning Considerations Under the Uniform Guidance	.01-.78
	Introduction .....	.01-.02
	Adapting and Applying Applicable Auditing Standards to a Uniform Guidance Compliance Audit .....	.03-.06
	Identifying Supplementary Audit Requirements .....	.07
	Agreeing Upon the Terms of the Engagement With Management .....	.08-.09
	Financial Statement Audit Considerations .....	.10-.13
	Developing an Efficient Audit Approach .....	.14
	Defining the Entity to Be Audited .....	.15
	Determining the Audit Period .....	.16-.17
	Fiscal Year and Program Period May Differ .....	.16
	Stub Periods .....	.17
	Initial-Year Audit Considerations .....	.18-.19
	Preceding Period Audited by Another Auditor .....	.18
	Factors to Consider Under the Risk-Based Approach .....	.19
	Timing of the Completion of the Audit and Report Submission Deadlines .....	.20
	Determining the Major Programs to Be Audited .....	.21
	Identifying Direct and Material Compliance Requirements .....	.22-.24
	Audit Risk of Noncompliance Considerations .....	.25-.35
	Components of Audit Risk of Noncompliance .....	.27-.29
	Performing Risk Assessment Procedures .....	.30-.35
	Assessing the Risks of Material Noncompliance .....	.36-.46
	Assessing the Risks of Material Noncompliance Due to Fraud .....	.41-.46
	Audit Materiality Considerations .....	.47-.52
	Materiality Differences Between the Financial Statement Audit and the Uniform Guidance Compliance Audit .....	.48-.49
	Materiality for Purposes of Reporting Audit Findings .....	.50-.52
	Audit Documentation .....	.53
	Audit Documentation Access and Audit Follow-Up .....	.54-.56
	Audit Documentation Access and Retention .....	.54-.55
	Audit Follow-Up .....	.56
	Group Audit Considerations in a Uniform Guidance Compliance Audit .....	.57-.59
	Existence of an Internal Audit Function .....	.60-.69
	Considerations Related to the Internal Audit Function .....	.62-.69
	Communications With the Cognizant or Oversight Agency for Audit and Others .....	.70
	State and Local Compliance Requirements .....	.71
	Desk Reviews and On-Site Reviews .....	.72-.73
	Restriction on the Auditor's Preparation of Indirect Cost Proposals .....	.74
	Transition Considerations Related to the Uniform Guidance .....	.75-.78

Table of Contents

xix

Chapter		Paragraph
7	Schedule of Expenditures of Federal Awards	.01-.43
	Introduction .....	.01-.02
	Identification of Federal Awards .....	.03-.05
	Federal Agency and Pass-Through Entity Requirements .....	.03-.04
	Auditee Requirements .....	.05
	Audit Considerations Related to the Schedule of Expenditures of Federal Awards .....	.06-.19
	Conditions for and Procedures Related to Issuing the In-Relation-To Opinion .....	.06-.12
	Additional Auditor Requirements Relating to Compliance Audit Objectives and Internal Control Over Compliance .....	.13-.16
	Management Representations Relating to the Schedule of Expenditures of Federal Awards .....	.17
	Subsequent Events .....	.18
	Reporting on the Schedule of Expenditures of Federal Awards .....	.19
	General Presentation Requirements .....	.20-.28
	Basis of Accounting .....	.20
	Required Content for the Schedule of Expenditures of Federal Awards .....	.21-.23
	Providing Additional Information .....	.24
	Schedule May Not Agree With Other Federal Award Reporting .....	.25
	Inclusion of Nonfederal Awards .....	.26
	Considerations Relating to State Awards .....	.27
	CFDA Number Not Available .....	.28
	Subawards .....	.29-.30
	Treatment of Subawards .....	.29
	Commingled Assistance .....	.30
	Determining the Value of Federal Financial Assistance .....	.31-.35
	Treatment of Noncash Assistance and Other Federal Financial Assistance .....	.31-.32
	Determining the Value of Federal Financial Assistance Expended .....	.33
	Loan and Loan Guarantee Continuing Compliance Requirements .....	.34
	Documentation Requirements .....	.35
	Issuing an Opinion on the Schedule of Expenditures of Federal Awards Under AU-C Section 805 When the Auditor Is Engaged to Perform Only the Compliance Audit Under the Uniform Guidance .....	.36-.38
	Transition Considerations Related to the Uniform Guidance ....	.39-.42
	Appendix—Illustrative Schedules of Expenditures of Federal Awards .....	.43

Chapter		Paragraph
8	Determination of Major Programs	.01-.38
	Introduction .....	.01
	Determining Major Programs Under the Uniform Guidance .....	.02-.19
	Step 1—Determination of Type A and Type B Programs .....	.03-.08
	Step 2—Identification of Low-Risk Type A Programs .....	.09-.13
	Step 3—Identification of High-Risk Type B Programs .....	.14-.15
	Step 4—Determination of Programs to Be Audited as Major .....	.16
	Percentage-of-Coverage Rule .....	.17
	Documentation of Risk Assessment .....	.18
	Auditor Judgment in the Risk Assessment Process .....	.19
	Other Considerations Regarding the Determination of Major Programs .....	.20-.21
	Federal Agency and Pass-Through Entity Requests for Additional Major Programs .....	.20
	Low-Risk Auditee Criteria .....	.21
	Assessing Risk When Determining Major Programs .....	.22
	Criteria for Federal Program Risk .....	.23-.32
	Current and Prior Audit Experience .....	.24-.29
	Oversight Exercised by Federal Agencies and Pass-Through Entities .....	.30-.31
	Inherent Risk of Noncompliance of the Federal Programs ...	.32
	Transition Considerations Related to the Uniform Guidance .....	.33-.38
9	Consideration of Internal Control Over Compliance for Major Programs	.01-.66
	Uniform Guidance—Definitions .....	.02-.03
	Internal Control Over Compliance for Federal Awards .....	.04-.07
	Auditee Responsibilities .....	.04-.07
	Requirements Related to Internal Control in the Uniform Guidance Compliance Audit .....	.08-.09
	Auditor Responsibilities .....	.08-.09
	Control Objectives and the Components of Internal Control ...	.10-.11
	Auditor’s Consideration of Internal Control Over Compliance for Each Major Program .....	.12-.16
	Obtaining an Understanding of Internal Control Over Direct and Material Compliance Requirements for Major Programs .....	.17-.25
	Understanding Direct and Material Compliance Requirements and Identifying Relevant Controls .....	.17-.21
	<i>Compliance Supplement</i> Internal Control Guidance .....	.22-.23
	Multiple Organizational Unit Considerations .....	.24
	Subrecipient Considerations .....	.25
	Planning and Performing the Testing of Operating Effectiveness of Internal Control Over Direct and Material Compliance Requirements for Each Major Program .....	.26-.59

Chapter		Paragraph
9	Consideration of Internal Control Over Compliance for Major Programs—continued	
	Assessing Control Risk of Noncompliance .....	.26-.27
	Planning the Testing of Operating Effectiveness of Internal Control Over Compliance for Each Major Program to Support a Low Assessed Level of Control Risk of Noncompliance .....	.28-.31
	Existence of Ineffective Internal Control in Preventing or Detecting Noncompliance .....	.32-.34
	Performing Tests to Evaluate the Effectiveness of Controls .....	.35-.38
	Evaluating the Results of Tests of Controls .....	.39-.45
	Significant Deficiencies and Material Weaknesses in Internal Control Over Compliance Related to Federal Programs .....	.46-.59
	Documentation Requirements .....	.60-.63
	Transition Considerations Related to the Uniform Guidance .....	.64-.66
10	Compliance Auditing Applicable to Major Programs	.01-.83
	Compliance Objectives in a Uniform Guidance Compliance Audit .....	.02-.03
	Responsibilities of Auditee .....	.04-.05
	Use of Professional Judgment .....	.06
	Audit Risk of Noncompliance Considerations .....	.07-.09
	Performing Further Audit Procedures in Response to Assessed Risks .....	.08-.09
	Materiality Considerations .....	.10-.13
	Materiality Judgments About Compliance Applied to Each Major Program .....	.11-.12
	Effect of Material Noncompliance on the Financial Statements .....	.13
	Performing a Uniform Guidance Compliance Audit .....	.14-.72
	Identifying Major Programs to Be Tested .....	.16
	Identifying Direct and Material Compliance Requirements .....	.17-.31
	Planning the Engagement .....	.32-.35
	Consideration of Internal Control Over Compliance for Major Programs .....	.36
	Performing Compliance Testing .....	.37-.46
	Consideration of Fraud .....	.47
	Consideration of Abuse .....	.48
	Consideration of Subsequent Events .....	.49-.51
	Evaluation and Reporting of Noncompliance .....	.52-.65
	Performing Follow-Up Procedures .....	.66-.72
	Documentation Requirements .....	.73-.74
	Management Representations Related to Federal Awards .....	.75-.77
	Suggested Representations .....	.76
	Refusal to Furnish Written Representations .....	.77

Chapter		Paragraph
10	Compliance Auditing Applicable to Major Programs—continued	
	State and Local Government Compliance Auditing	
	Considerations .....	.78
	Transition Considerations Related to the Uniform Guidance ....	.79-.83
11	Audit Sampling Considerations of Uniform Guidance Compliance Audits	.01-.138
	Introduction .....	.01-.04
	Audit Sampling in a Uniform Guidance Compliance Audit ....	.05-.11
	Purpose and Nature of Audit Sampling in a Uniform	
	Guidance Compliance Audit .....	.06-.09
	Audit Sampling in the Context of Other Audit Procedures ...	.10-.11
	Procedures That May Not Involve Audit Sampling .....	.12-.30
	Inquiry and Observation .....	.13
	Analytical Procedures .....	.14-.17
	Procedures Applied to Every Item in a Population or	
	Subpopulation in Compliance Testing .....	.18-.20
	Individually Important Items in Compliance Testing .....	.21-.28
	Understanding and Testing the Operating Effectiveness	
	of Controls Over Compliance .....	.29-.30
	Planning Considerations for Sampling Related to Tests of	
	Controls Over Compliance and Compliance Testing .....	.31-.89
	Determining Audit Objectives .....	.31-.32
	Defining the Population and Considering Completeness .....	.33-.48
	Considering the Effect of Population Size .....	.49
	Defining Control Deviation and Compliance Exception	
	Conditions .....	.50-.51
	Dual Purpose Sample Considerations .....	.52-.57
	Determining the Sample Size .....	.58-.89
	Selecting Sample Items for Testing .....	.90-.98
	Random Selection .....	.94
	Haphazard Selection .....	.95-.96
	Systematic Selection With a Random Start .....	.97-.98
	Performing the Test Procedures .....	.99-.105
	Investigate and Understand the Nature and Cause of	
	Control Deviations and Compliance Exceptions .....	.100-.101
	Determine If Additional Testing Is Warranted in Response	
	to an Observed Deviation or Exception .....	.102-.105
	Evaluating Sample Results .....	.106-.130
	Evaluating Control Deviations .....	.106-.113
	Reaching an Overall Conclusion on Tests of Controls .....	.114-.115
	Evaluating Compliance Exceptions .....	.116-.127
	Reaching an Overall Conclusion on Tests of Compliance ....	.128-.130
	Documenting the Sampling Procedure .....	.131-.135
	Transition Considerations Related to the Uniform Guidance ....	.136-.138

Table of Contents

xxiii

Chapter		Paragraph
12	Audit Considerations of Pass-Through Entities and Subrecipients	.01-.55
	Introduction .....	.01
	Definitions .....	.02
	Applicability of the Uniform Guidance .....	.03-.07
	Pass-Through Entities, Subrecipients, and Contractors .....	.08-.18
	Subrecipient Status Versus Contractor Status .....	.08-.11
	Description of Relationships .....	.12-.14
	Contractor Compliance Considerations .....	.15-.18
	Single Audit Considerations of Pass-Through Entities .....	.19-.45
	Pass-Through Entity Responsibilities .....	.20
	Audit Planning Considerations .....	.21-.24
	Auditor Consideration of Internal Control Over Compliance .....	.25
	Subrecipient Monitoring .....	.26-.38
	Reporting Considerations .....	.39-.42
	For-Profit Subrecipients .....	.43
	Foreign Public Entities and Foreign Organizations .....	.44
	State Designation of a Cluster of Programs .....	.45
	Audit Considerations of Subrecipients .....	.46-.49
	Additional Compliance Requirements Established by Pass-Through Entities .....	.47
	Information Related to the Schedule of Expenditures of Federal Awards .....	.48
	Audit Findings .....	.49
	Transition Considerations Related to the Uniform Guidance ....	.50-.55
13	Auditor Reporting Requirements and Other Communication Considerations in a Single Audit	.01-.69
	Overview .....	.01-.08
	Requirements Under the Uniform Guidance .....	.03-.04
	Reporting Package .....	.05
	Illustrative Auditor’s Reports .....	.06-.08
	Reporting on the Financial Statements and Supplementary Schedule of Expenditures of Federal Awards in Accordance With GAAS and <i>Government Auditing Standards</i> in a Single Audit .....	.09-.20
	Basis of Accounting .....	.09
	Implementing Regulations of Federal Awarding Agencies May Define the Entity to Be Audited Differently Than Does GAAP .....	.10
	Elements of the In-Relation-To Report on the Supplementary Schedule of Expenditures of Federal Awards .....	.11-.13
	Potential Report Modifications When Reporting on the Schedule of Expenditures of Federal Awards .....	.14-.15
	Considerations When Dating the Report on the Schedule of Expenditures of Federal Awards .....	.16-.19

Chapter		Paragraph
13	Auditor Reporting Requirements and Other Communication Considerations in a Single Audit—continued	
	Issuing an Opinion on the Schedule of Expenditures of Federal Awards Under AU-C Section 805 When the Auditor Is Engaged to Perform Only the Compliance Audit Under the Uniform Guidance .....	.20
	Reporting on Compliance and Internal Control Over Compliance Applicable to Each Major Program .....	.21-.28
	Material Instances of Noncompliance .....	.22
	Scope Limitations .....	.23-.25
	Report on Compliance for Each Major Program, Report on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance .....	.26-.27
	Dating the Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance .....	.28
	Other Reporting Considerations .....	.29-.32
	Reissuance of the Uniform Guidance Compliance Report ...	.29-.30
	Other Auditors .....	.31
	When the Audit of Federal Awards Does Not Encompass the Entirety of the Auditee’s Operations .....	.32
	Schedule of Findings and Questioned Costs .....	.33-.45
	What Is Required to Be Reported .....	.34-.35
	Findings Related to the Financial Statements .....	.36-.37
	Audit Findings Related to Federal Awards .....	.38-.39
	Findings of Abuse .....	.40
	Detail of Audit Findings—Federal Awards .....	.41-.43
	Other Preparation Guidance .....	.44-.45
	Protected Personally Identifiable Information .....	.46-.47
	Communicating Other Findings to Management .....	.48
	Summary Schedule of Prior Audit Findings and Corrective Action Plan .....	.49-.53
	Data Collection Form .....	.54-.62
	Submission of Reporting Package and Data Collection Form .....	.59
	Federal Audit Clearinghouse Responsibilities .....	.60-.62
	Freedom of Information Act and Similar Laws and Regulations .....	.63
	Transition Considerations Related to the Uniform Guidance ...	.64-.68
	Appendix—Illustrative Auditor’s Reports Under the Uniform Guidance .....	.69
14	Program-Specific Audits	.01-.16
	Use of a Program-Specific Audit to Satisfy Uniform Guidance Audit Requirements .....	.02
	Program-Specific Audit Requirements .....	.03

Table of Contents

XXV

Chapter		Paragraph
14	Program-Specific Audits—continued	
	Availability of Program-Specific Audit Guide .....	.04-.05
	Auditee’s Responsibilities When a Program-Specific Audit Guide Is Not Available .....	.06
	Auditor’s Responsibilities When a Program-Specific Audit Guide Is Not Available .....	.07-.11
	Audit Scope and Requirements .....	.07
	Auditor Procedures .....	.08
	Auditor’s Reports .....	.09-.11
	Submission of Report .....	.12-.15
	Timing of Submission .....	.12
	Submission When a Program-Specific Audit Guide Is Available .....	.13
	Submission When a Program-Specific Audit Guide Is Not Available .....	.14-.15
	Appendix—Illustrative Auditor’s Reports for Program-Specific Audits .....	.16
Supplement		
A	Single Audit Act Amendments of 1996	
B	Uniform Guidance Audit Requirements	
Appendix		
A	Overview of Statements on Quality Control Standards	
B	Schedule of Changes Made to the Text From the Previous Edition	
Index of Pronouncements and Other Technical Guidance		
Subject Index		

Chapter 1

Introduction and Overview of Government Auditing Standards

🔄 Update

A proposed revision to *Government Auditing Standards* is expected to be issued for comment in Spring 2017. A final revision will not likely be issued until late 2017 or in 2018. Once it is issued in final form and becomes effective, it will supersede *Government Auditing Standards (2011 Revision)*.

Purpose and Applicability of This Guide

1.01 This guide¹ has a two-fold purpose:

- a. The first purpose is to provide auditors with a basic understanding of the procedures to be performed and of the reports that should be issued for audits of financial statements conducted in accordance with *Government Auditing Standards* (also referred to as the Yellow Book), issued by the Comptroller General of the United States of the Government Accountability Office (GAO).²
- b. The second purpose is to provide auditors of states, local governments, and not-for-profit entities (NFPs) that receive federal awards with a basic understanding of the procedures to be performed and of the reports that should be issued for single audits and program-specific audits conducted in accordance with the Single Audit Act Amendments of 1996³ and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).⁴

1.02 *Government Auditing Standards* contains requirements and guidance for financial audits, attestation engagements, and performance audits. This guide addresses the *Government Auditing Standards* requirements and guidance for financial audits, generally only as they relate to audits of financial statements prepared in accordance with generally accepted accounting principles or a special purpose framework, and compliance audits conducted in accordance with the Single Audit Act and the Uniform Guidance.

¹ References to specific paragraph numbers throughout the guide are to paragraphs contained in the guide unless otherwise specified.

² *Government Auditing Standards* is available on the Yellow Book page of the U.S. Government Accountability Office (GAO) website at www.gao.gov/yellowbook.

³ The Single Audit Act Amendments of 1996 (Public Law 104-156) were enacted into law in July 1996 and replaced the Single Audit Act of 1984. Supplement A, "Single Audit Act Amendments of 1996," of this guide is a reprint of the act. Hereafter, this guide uses the term *Single Audit Act* to refer to this legislation.

⁴ Subpart F, "Audit Requirements" of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) can be found in supplement B, "Uniform Guidance Audit Requirements," of this guide. The Uniform Guidance in its entirety can be found on www.ecfr.gov.

1.03 *Government Auditing Standards* states that auditors may use *Government Auditing Standards* in conjunction with professional standards issued by the PCAOB and the International Auditing and Assurance Standards Board. For example, audits of certain for-profit entities whose financial statement audits are performed under PCAOB audit standards are also subject to *Government Auditing Standards* due to their participation in federal programs that require an audit under a federal agency audit guide. Such audits are not addressed in this guide. However, chapter 4, "Auditor Reporting Requirements and Other Communication Considerations of *Government Auditing Standards*," of this guide highlights certain reporting considerations when the financial statement audit is performed under PCAOB audit standards, GAAS, and *Government Auditing Standards*.

1.04 *Government Auditing Standards* incorporates by reference AICPA Statements on Auditing Standards.⁵ Therefore, auditors performing financial statement audits in accordance with *Government Auditing Standards* should comply with generally accepted auditing standards (GAAS), the requirements found in chapters 1–3 of *Government Auditing Standards*, and the additional requirements for financial audits found in chapter 4, "Standards for Financial Audits," of *Government Auditing Standards*. This guide does not contain all the GAAS requirements and guidance that an auditor will need to know and understand in order to perform an audit in accordance with *Government Auditing Standards*. The guide discusses GAAS requirements and guidance only to the extent necessary to provide the reader with an understanding of the additional requirements of *Government Auditing Standards* and also provides information on other GAAS guidance with particular relevance to an audit performed in accordance with *Government Auditing Standards*. Included in this guide's discussion of GAAS is information found in relevant AU-C section paragraphs titled "Considerations Specific to Governmental Entities" that highlight considerations specific to governmental entities, entities receiving government funding, and entities being audited in accordance with *Government Auditing Standards*. Additional information on GAAS requirements for financial statement audits can be found in the relevant professional standards and applicable Audit and Accounting Guides, such as *Not-for-Profit Entities*; *State and Local Governments*; *Health Care Entities*; *Gaming*; *Employee Benefit Plans*; and *Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies*.

1.05 As further discussed in the preface to this guide, auditing guidance included in an AICPA Guide is recognized as an interpretive publication pursuant to AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*). Interpretive publications are not auditing standards. Interpretive publications are recommendations on the application of GAAS in specific circumstances, in this case to audits performed in accordance with *Government Auditing Standards* and to single and program-specific audits under the Uniform Guidance. The GAO, OMB, and AICPA promulgate applicable standards and requirements. Refer to those organizations'

⁵ Paragraph 4.01 of *Government Auditing Standards* notes that all sections of the Statements on Auditing Standards are incorporated into *Government Auditing Standards*, including the introduction, objectives, definitions, requirements, and application and other explanatory material.

websites⁶ for the full text of the organizations' original standards and requirements.

1.06 When covering certain topics, *Government Auditing Standards* contains information specific to internal audit organizations. This guide discusses the *Government Auditing Standards* guidance relevant to independent auditors and does not highlight guidance that is specific to internal audit organizations. Refer to *Government Auditing Standards* for information on, and requirements for, internal audit organizations.

1.07 This guide is organized into two parts that discuss important considerations for audits performed under *Government Auditing Standards* (part I) and single audits and program-specific audits performed under the Uniform Guidance (part II). Each part presents chapters with topics relating to planning, performing, evaluating the results of, and reporting on those audits. See the table of contents for the specific topics addressed in each part and chapter.

1.08 This guide is not a complete manual of procedures, and *Government Auditing Standards* states that the auditor must use professional judgment in planning and performing audit engagements and in reporting the results. Because of the variety and complexity of the laws and regulations that govern audits performed under *Government Auditing Standards* and the Uniform Guidance, the procedures included in this guide cannot cover all the circumstances or conditions that may be encountered in an audit.

1.09 This guide does not address requirements when conducting a compliance audit of for-profit entities that participate in federal programs subject to an audit in accordance with a federal agency audit guide (for example, the U.S. Department of Housing and Urban Development [HUD] *Consolidated Audit Guide for Audits of HUD Programs* and the U.S. Department of Education audit guides, among others). Refer to AU-C section 935, *Compliance Audits* (AICPA, *Professional Standards*), and the specific federal agency audit guide for related requirements and guidance when performing such audits.

1.10 Certain states have imposed additional audit requirements related to state or local financial assistance and may require additional audit procedures and reporting. Furthermore, pass-through entities may impose additional audit requirements on their subrecipients related to the financial assistance passed through. The guidance in this guide generally does not discuss or extend to those requirements.

1.11 The terminology found in *Government Auditing Standards* is consistent with the terminology found in the auditing sections of AICPA *Professional Standards*. Additionally, the terms used in this guide are intended to be consistent with the definitions in *Government Auditing Standards*, the Single Audit Act, the Uniform Guidance, and AU-C section 935. Note that the term *not-for-profit entity* as used in this guide is consistent with the definition of the

⁶ See footnote 2 in paragraph 1.01 for a link to *Government Auditing Standards* and footnote 4 in paragraph 1.01 for a link to the Uniform Guidance. The Office of Management and Budget (OMB) website containing other single audit information is https://obamawhitehouse.archives.gov/omb/circulars_default. (See the preface for additional information regarding access to the OMB website.) Also see the AICPA's website at www.aicpa.org and the Governmental Audit Quality Center's website at www.aicpa.org/GAQC.

term *nonprofit organization* as found in the Uniform Guidance⁷ and includes not-for-profit institutions of higher education, hospitals, and other health care providers.

Overview of Government Auditing Standards

Applicability of Government Auditing Standards

1.12 The professional standards and guidance for financial audits contained in *Government Auditing Standards* provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence. Those requirements and guidance apply to audits of governmental entities, programs, activities, and functions. Those requirements and guidance also apply to audits of government assistance administered by contractors, NFPs, and other nongovernmental entities, including foreign entities, when the use of *Government Auditing Standards* is required or is voluntarily followed. Appendix I section A1.04 of *Government Auditing Standards* states that even if not required to do so, auditors may find it useful to follow *Government Auditing Standards* in performing audits of federal, state, and local government programs as well as audits of government awards administered by contractors, NFPs, and other nongovernmental entities.

1.13 Entities for which an auditor may need to apply *Government Auditing Standards* when auditing financial statements include federal, state, and local governments; NFPs; health care entities; entities with mortgage banking, real estate, or student lending and servicing activities; Indian Tribes; and other entities receiving federal awards. As discussed in chapter 5, "Overview of the Single Audit Act, the Uniform Guidance Audit Requirements, and the *Compliance Supplement*," of this guide, audits required by the Single Audit Act and performed under the Uniform Guidance require the use of *Government Auditing Standards*. Other laws, regulations, agreements, contracts, or other authoritative sources may require the use of *Government Auditing Standards*. Federal audit guidelines pertaining to program requirements, such as those issued for HUD programs and Student Financial Assistance programs, also may require the use of *Government Auditing Standards*. In addition, state and local laws and regulations may require auditors of state and local governments to follow *Government Auditing Standards*. Therefore, reading an entity's grant agreements and contracts and relevant state and local laws may provide important information to the auditor about the type of audit the entity is required to undergo.

Additional Requirements of Government Auditing Standards

1.14 In conducting audits of financial statements in accordance with *Government Auditing Standards*, the auditor assumes certain responsibilities beyond those of audits performed in accordance with GAAS. The standards and guidance applicable to financial audits, including audits of financial statements, are contained in chapters 1–4 of *Government Auditing Standards* and

⁷ The term *nonfederal entity* is used throughout the Uniform Guidance. Subpart A, "Acronyms and Definitions," of the Uniform Guidance defines a *nonfederal entity* as a state, local government, Indian tribe, institution of higher education, or nonprofit organization that carries out a federal award as a recipient or subrecipient.

include ethical principles, general standards, and additional standards for performing and reporting on financial audits. For example, in addition to an auditor's report that expresses an opinion or disclaimer of opinion on the financial statements as required by GAAS,⁸ a written report on internal control over financial reporting and on compliance and other matters is required under *Government Auditing Standards*.

1.15 It is important that both the auditor and management understand the type of engagement that is required to be performed. Chapter 3, "Planning and Performing a Financial Statement Audit in Accordance With *Government Auditing Standards*," of this guide further discusses GAAS and *Government Auditing Standards* requirements for agreeing upon the terms of the audit engagement with the auditee, which includes communicating with the auditee, through a written communication, the auditor's understanding of the services to be performed.

Use of Terminology to Define *Government Auditing Standards* Requirements

1.16 Auditors have a responsibility to consider the entire text of *Government Auditing Standards* when carrying out their work and in understanding and applying the requirements in those standards. Not every paragraph of the standard carries a requirement; rather, the requirements are identified through the use of specific language.

1.17 Chapter 2, "Standards for Use and Application of GAGAS," of *Government Auditing Standards* uses two categories of professional requirements, identified by specific terms, to describe the degree of responsibility they impose on auditors and audit organizations.⁹ Unconditional requirements are those requirements that the auditor and audit organization must comply with in all cases where such requirement is relevant. The word *must* is used to indicate an unconditional requirement. Presumptively mandatory requirements are indicated by the use of the word *should*. Presumptively mandatory requirements also must be complied with in all cases where such a requirement is relevant. However, in rare circumstances an auditor or audit organization may determine it necessary to depart from a relevant presumptively mandatory requirement. This is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the intent of the requirement. In this rare circumstance the auditor should perform alternative procedures to achieve the audit objective. Furthermore, auditors must document their justification for the departure and how the alternative procedures performed were sufficient to achieve the intent of the requirement.

1.18 In addition to requirements discussed in the preceding paragraph, *Government Auditing Standards* contains related guidance in the form of

⁸ As explained in the AICPA Audit and Accounting Guide *State and Local Governments*, the auditor generally expresses or disclaims an opinion on a government's basic financial statements by providing an opinion or disclaimer of opinion on each opinion unit required to be presented in those financial statements. In addition, the auditor may provide opinions or disclaimers of opinions on additional opinion units if engaged to set the scope of the audit and assess materiality at a more detailed level than by the opinion units required for the basic financial statements. Throughout this guide, the use of the singular terms *opinion* and *disclaimer of opinion* encompasses the multiple opinions and disclaimers of opinion that generally will be provided on a government's basic financial statements.

⁹ The terminology is consistent with the terminology defined in the auditing sections of AICPA *Professional Standards*.

application and other explanatory material that provides further explanation of the requirements and guidance for carrying out those requirements. In particular, it may explain more precisely what a requirement means or is intended to cover or include examples of procedures that may be appropriate in the circumstances. Although such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. Auditors should have an understanding of the application and other explanatory material; how auditors apply the guidance in the audit depends on the exercise of professional judgment in the circumstances consistent with the objectives of the requirement. The words *may*, *might*, and *could* are used to describe these actions and procedures. Note that the application and other explanatory material may also provide background information on matters addressed in *Government Auditing Standards*.

1.19 *Government Auditing Standards* states that in planning and performing audits of financial statements in accordance with *Government Auditing Standards*, auditors also use interpretative publications which are issued under the authority of GAO and provide recommendations on the application of *Government Auditing Standards* in specific circumstances. Interpretive publications, such as related *Government Auditing Standards* guidance documents and interpretations, are found on the GAO website.¹⁰ Interpretive publications are not auditing standards, but have the same level of authority as application and other materials in *Government Auditing Standards*.

¹⁰ An example is the document "Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education," that is found on the GAO website.

Part I

Government Auditing Standards *Audits*

Chapter 2

Government Auditing Standards—*Ethical Principles and General Standards*

© Update

A proposed revision to *Government Auditing Standards* is expected to be issued for comment in Spring 2017. A final revision will not likely be issued until late 2017 or in 2018. Once it is issued in final form and becomes effective, it will supersede *Government Auditing Standards (2011 Revision)*.

Introduction

2.01 This chapter discusses the ethical principles and general standards found in chapter 1, "Government Auditing: Foundation and Ethical Principles," and chapter 3, "General Standards," of *Government Auditing Standards* (also referred to as the Yellow Book), issued by the Comptroller General of the United States, who heads the Government Accountability Office (GAO). Chapter 1, "Introduction and Overview of *Government Auditing Standards*," of this guide contains an overview of *Government Auditing Standards* as well as a discussion of certain requirements in chapter 2, "Standards for Use and Application of GAGAS" of *Government Auditing Standards*. Chapter 3, "Planning and Performing a Financial Statement Audit in Accordance With *Government Auditing Standards*," of this guide provides information to be considered when planning and performing a financial audit under *Government Auditing Standards*, whereas chapter 4, "Auditor Reporting Requirements and Other Communication Considerations of *Government Auditing Standards*," of this guide provides information related to reporting on a financial audit performed in accordance with *Government Auditing Standards*. Refer to the full text of *Government Auditing Standards* for a complete discussion of the relevant requirements.

Government Auditing Standards—Ethical Principles

2.02 Although the ethical principles presented in chapter 1 of *Government Auditing Standards* do not establish specific standards or requirements, the ethical principles are important in that they provide the foundation, discipline, structure, and climate that influence the application of *Government Auditing Standards*. *Government Auditing Standards* states that ethical principles apply in preserving auditor independence, taking on only work that the audit organization is competent to perform, performing high quality work, and following the applicable standards cited in the auditor's report. Integrity and objectivity are maintained when auditors perform their work and make decisions that are consistent with the broader interest of those relying on the auditor's report, including the public.

2.03 *Government Auditing Standards* states that management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that

reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff of the audit organization is an essential element of a positive ethical environment. Further, it states that conducting audit work in accordance with ethical principles is a matter of personal and organizational responsibility.

2.04 The five ethical principles that guide the work of auditors who conduct audits in accordance with *Government Auditing Standards* are

- a. the public interest;
- b. integrity;
- c. objectivity;
- d. proper use of government information, resources, and positions; and
- e. professional behavior.

Refer to chapter 1 of *Government Auditing Standards* for a full discussion of these principles.

2.05 *Government Auditing Standards* states that other ethical requirements or codes of professional conduct may also be applicable to auditors who conduct an audit in accordance with *Government Auditing Standards*. For example, individual auditors who are members of professional organizations or are licensed or certified professionals may also be subject to ethical requirements of those professional organizations or licensing bodies. Auditors employed by governmental entities may also be subject to government ethics laws and regulations.

Government Auditing Standards—General Standards

2.06 Chapter 3 of *Government Auditing Standards* contains general standards that, along with the overarching ethical principles found in chapter 1 of *Government Auditing Standards*, establish a foundation for the credibility of an auditor's work. The general standards are as follows:

- *Independence*. In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.
- *Professional judgment*. Auditors must use professional judgment in planning and performing audits and in reporting the results.
- *Competence*. The staff assigned to perform the audit must collectively possess adequate professional competence needed to address the audit objectives and perform the work in accordance with *Government Auditing Standards*.
- *Quality control and assurance*. Each audit organization performing audits in accordance with *Government Auditing Standards* must (a) establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and (b) have an external peer review performed by

reviewers independent of the audit organization being reviewed at least once every three years.

Independence

2.07 AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*), states that auditors should comply with relevant ethical requirements relating to financial statement audit engagements. Therefore, in an audit performed in accordance with generally accepted auditing standards (GAAS), members are required to comply with the "Independence Rule" (AICPA, *Professional Standards*, ET sec. 1.200.001) of the AICPA Code of Professional Conduct. Furthermore, when an audit is performed in accordance with *Government Auditing Standards*, members are subject to the AICPA Code of Professional Conduct as well as the additional independence requirements found in chapter 3 of *Government Auditing Standards*. Paragraphs 2.07–.27 of this guide describe the independence requirements contained in *Government Auditing Standards*.

2.08 *Government Auditing Standards* states that in all matters relating to the audit work, the audit organization and individual auditor, whether government or public, must be independent. If independence is impaired, auditors should decline to perform a prospective audit or terminate an audit in progress.¹ Except under the limited circumstances discussed in paragraphs 3.47–.48 of *Government Auditing Standards*, auditors should be independent from an auditee during

- a. any period of time that falls within the period covered by the financial statements or subject matter of the audit, and
- b. the period of the professional engagement, which begins when the auditors either sign an initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier. The period lasts for the entire duration of the professional relationship (which, for recurring audits, could cover many periods) and ends with the formal or informal notification, either by the auditors or the auditee, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year's audit or a subsequent audit with a similar objective.

2.09 *Government Auditing Standards* establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. The framework can be applied to many variations in circumstances that create threats to independence and allows auditors to address threats to independence that result from activities that are not specifically prohibited by *Government*

¹ See paragraph 2.26 for a discussion of conditions under which a government auditor may be required by law or regulation to perform both an audit and a nonaudit service that could impair the auditor's independence and who cannot decline to perform or terminate the service due to requirements over which the auditor has no control.

*Auditing Standards.*² Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to

- identify threats to independence;
- evaluate the significance of the threats identified, both individually and in the aggregate; and
- apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired. As noted previously, if independence is impaired, the auditor should decline to perform a prospective audit or terminate an audit in progress.

2.10 Threats to independence are circumstances that could impair independence and are conditions to be evaluated using the conceptual framework. Threats do not necessarily impair independence. Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's professional judgment may be compromised, and on the specific safeguards applied to eliminate the threat or reduce it to an acceptable level. Broad categories of threats (and a brief explanation of the threat) are identified in paragraph 3.14 of *Government Auditing Standards*. They are

- self-interest threat,
- self-review threat,
- bias threat,
- familiarity threat,
- undue influence threat,
- management participation threat, and
- structural threat.

Circumstances that result in a threat to independence may involve more than one of the broad categories of threats. Appendix I sections A3.02–.09 of *Government Auditing Standards* provides examples of circumstances that create various types of threats for auditors.

2.11 Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence. Under the conceptual framework, the auditor applies safeguards that address the specific facts and circumstances under which significant threats to independence exist. In some cases, multiple safeguards may be necessary to address a significant threat. The independence section in chapter 3 of *Government Auditing Standards* provides examples of safeguards that may be effective, either individually or in combination, in addressing threats for a number of situations that may be encountered. Although the examples presented do not provide safeguards for all circumstances, the content provides a starting point for auditors who have identified significant

² The appendix, "Government Auditing Standards Conceptual Framework for Independence," of this chapter (paragraph 2.51) reprints *Government Auditing Standards* Appendix II, "GAGAS Conceptual Framework for Independence," which is a flowchart to assist auditors in the application of the conceptual framework for independence. For more information, visit the Yellow Book page of the Government Accountability Office (GAO) website at www.gao.gov/yellowbook.