

**Chapter 6**  
**Field Work Standards for Performance Audits**

**Introduction**

**6.01** This chapter contains field work requirements and guidance for performance audits conducted in accordance with generally accepted government auditing standards (GAGAS). The purpose of field work requirements is to establish an overall approach for auditors to apply in obtaining reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. The field work requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of reasonable assurance, significance, and audit risk form a framework for applying these requirements and are included throughout the discussion of performance audits.

**6.02** For performance audits conducted in accordance with GAGAS, the requirements and guidance in chapters 1 through 3, 6, and 7 apply.

**Reasonable Assurance**

**6.03** In performance audits that comply with GAGAS, auditors obtain reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives.<sup>127</sup> Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have

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<sup>127</sup>See paragraphs 2.11 and A2.02 for additional discussion of performance audit objectives.

limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives, and in evaluating whether sufficient, appropriate evidence has been obtained to address the audit objectives.

## **Significance in a Performance Audit**

**6.04** The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. In the performance audit requirements, the term “significant” is comparable to the term “material” as used in the context of financial statement engagements.

## **Audit Risk**

**6.05** Audit risk is the possibility that the auditors’ findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors impacting audit risk include the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity’s systems and processes to detect inconsistencies, significant errors, or fraud; and auditors’ access to records. Audit risk includes the risk

that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding specialists, additional reviewers, and other resources to perform the audit; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

## **Planning**

**6.06** Auditors must adequately plan and document the planning of the work necessary to address the audit objectives.

**6.07** Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate<sup>128</sup> to support the auditors' findings and conclusions. This determination is a matter of professional judgment. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed. In situations where the audit objectives are established by statute or legislative oversight, auditors may not have latitude to define or adjust the audit objectives or scope.

**6.08** The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria. The term "program" is

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<sup>128</sup>See paragraphs 6.56 through 6.72 for a discussion about assessing the sufficiency and appropriateness of evidence.

used in GAGAS to include government entities, organizations, programs, activities, and functions.

**6.09** Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

**6.10** The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors perform to address the audit objectives. Auditors should design the methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives and to reduce audit risk to an acceptable level.

**6.11** Auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:

**a.** the nature and profile of the programs and the needs of potential users of the audit report;

**b.** internal control as it relates to the specific objectives and scope of the audit;

**c.** information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;

**d.** provisions of laws, regulations, contracts, and grant agreements, and potential fraud, and abuse that are significant within the context of the audit objectives;

**e.** ongoing investigations or legal proceedings within the context of the audit objectives;  
and

**f.** the results of previous audits and attestation engagements that directly relate to the current audit objectives.<sup>129</sup>

**6.12** During planning, auditors should also

- a.** identify the potential criteria needed to evaluate matters subject to audit;
- b.** identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance;
- c.** evaluate whether to use the work of other auditors and specialists to address some of the audit objectives;
- d.** assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the audit;
- e.** communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and
- f.** prepare a written audit plan.<sup>130</sup>

Nature and Profile of the Program and User Needs

**6.13** Auditors should obtain an understanding of the nature of the program or program component under audit and the potential use that will be made of the audit results or report as they plan a performance audit. The nature and profile of a program include

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<sup>129</sup>See paragraphs 6.13 through 6.36 for additional discussion of 6.11 a-f.

<sup>130</sup>See paragraphs 6.37 through 6.52 for additional discussion of 6.12 a-f.

- a. visibility, sensitivity, and relevant risks associated with the program under audit;
- b. age of the program or changes in its conditions;
- c. the size of the program in terms of total dollars, number of citizens affected, or other measures;
- d. level and extent of review or other forms of independent oversight;
- e. program's strategic plan and objectives; and
- f. external factors or conditions that could directly affect the program.

**6.14** One group of users of the auditors' report is government officials who may have authorized or requested the audit. Other important users of the auditors' report are the audited entity, those responsible for acting on the auditors' recommendations, oversight organizations, and legislative bodies. Other potential users of the auditors' report include government legislators or officials (other than those who may have authorized or requested the audit), the media, interest groups, and individual citizens. In addition to an interest in the program, potential users may have an ability to influence the conduct of the program. An awareness of these potential users' interests and influence can help auditors judge whether possible findings could be significant to relevant users.

**6.15** Obtaining an understanding of the program under audit helps auditors to assess the relevant risks associated with the program and the impact of the risks on the audit objectives, scope, and methodology. The auditors' understanding may come from knowledge they already have about the program or knowledge they gain from inquiries, observations, and reviewing documents while planning the audit. The extent and breadth of those inquiries and observations will vary among audits based on the audit objectives, as will the need to understand individual aspects of the program, such as the following.

**a. Provisions of laws, regulations, contracts and grant agreements:** Government programs are usually created by law and are subject to specific laws and regulations. Laws and regulations usually set forth what is to be done, who is to do it, the purpose to be achieved, the population to be served, and related funding guidelines or restrictions. Government programs may also be subject to contracts or grant agreements. Thus, understanding the laws and legislative history establishing a program and the provisions of any contracts or grant agreements is essential to understanding the program itself. Obtaining that understanding is also a necessary step in identifying the provisions of laws, regulations, contracts, or grant agreements that are significant within the context of the audit objectives.

**b. Purpose and goals:** Purpose is the result or effect that is intended or desired from a program's operation. Legislatures usually establish the program's purpose when they provide authority for the program. Entity officials may provide more detailed information on the program's purpose to supplement the authorizing legislation. Entity officials are sometimes asked to set goals for program performance and operations, including both output and outcome goals. Auditors may use the stated program purpose and goals as criteria for assessing program performance or may develop additional criteria to use when assessing performance.

**c. Internal control:** Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse.<sup>131</sup>

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<sup>131</sup>See paragraphs 6.16 through 6.27 for guidance pertaining to internal control.

**d. Inputs:** Inputs are the amount of resources (in terms of money, material, personnel, etc.) that are put into a program. These resources may come from within or outside the entity operating the program. Measures of inputs can have a number of dimensions, such as cost, timing, and quality. Examples of measures of inputs are dollars spent, employee-hours expended, and square feet of building space.

**e. Program operations:** Program operations are the strategies, processes, and activities management uses to convert inputs into outputs. Program operations may be subject to internal control.

**f. Outputs:** Outputs represent the quantity of goods or services produced by a program. For example, an output measure for a job training program could be the number of persons completing training, and an output measure for an aviation safety inspection program could be the number of safety inspections completed.

**g. Outcomes:** Outcomes are accomplishments or results of a program. For example, an outcome measure for a job training program could be the percentage of trained persons obtaining a job and still in the work place after a specified period of time. An example of an outcome measure for an aviation safety inspection program could be the percentage reduction in safety problems found in subsequent inspections or the percentage of problems deemed corrected in follow-up inspections. Such outcome measures show the progress made in achieving the stated program purpose of helping unemployable citizens obtain and retain jobs, and improving the safety of aviation operations. Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Auditors may use approaches drawn from other disciplines, such as program evaluation, to isolate the effects of the program from these other influences. Outcomes also include unexpected and/or unintentional effects of a program, both positive and negative.



## Internal Control

**6.16** Auditors should obtain an understanding of internal control<sup>132</sup> that is significant within the context of the audit objectives. For internal control that is significant within the context of the audit objectives, auditors should assess whether internal control has been properly designed and implemented and should perform procedures designed to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. Information systems controls are often an integral part of an entity's internal control. The effectiveness of significant internal controls is frequently dependent on the effectiveness of information systems controls. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls.<sup>133</sup>

**6.17** The effectiveness of internal control that is significant within the context of the audit objectives can affect audit risk. Consequently, auditors may determine that it is necessary to modify the nature, timing, or extent of the audit procedures based on the auditors' assessment of internal control and the results of internal control testing. For example, poorly controlled aspects of a program have a higher risk of failure, so auditors may choose to focus more efforts in these areas. Conversely, effective controls at the audited entity may enable the auditors to limit the extent and type of audit testing needed.

**6.18** Auditors may obtain an understanding of internal control through inquiries, observations, inspection of documents and records, review of other auditors' reports, or direct tests. The nature and extent of procedures auditors perform to obtain an understanding of internal control may vary among audits based on audit objectives, audit risk, known or potential internal control deficiencies, and the auditors' knowledge about internal control gained in prior audits.

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<sup>132</sup>See paragraphs A.03 and A.04 for additional discussion on internal control.

<sup>133</sup>See paragraphs 6.23 through 6.27 for additional discussion on evaluating the effectiveness of information systems controls.

**6.19** The following discussion of the principal types of internal control objectives is intended to help auditors better understand internal controls and determine whether or to what extent they are significant to the audit objectives.

**a.** Effectiveness and efficiency of program operations: Controls over program operations include policies and procedures that the audited entity has implemented to provide reasonable assurance that a program meets its objectives, while considering cost-effectiveness and efficiency. Understanding these controls can help auditors understand the program operations that convert inputs to outputs and outcomes.

**b.** Relevance and reliability of information: Controls over the relevance and reliability of information include policies and procedures that officials of the audited entity have implemented to provide themselves reasonable assurance that operational and financial information they use for decision making and reporting externally is relevant and reliable and fairly disclosed in reports. Understanding these controls can help auditors (1) assess the risk that the information gathered by the entity may not be relevant or reliable and (2) design appropriate tests of the information considering the audit objectives.

**c.** Compliance with applicable laws, regulations, contracts, and grant agreements: Controls over compliance include policies and procedures that the audited entity has implemented to provide reasonable assurance that program implementation is in accordance with provisions of laws, regulations, contracts, and grant agreements. Understanding the relevant controls concerning compliance with those laws, regulations, contracts or grant agreements that the auditors have determined are significant within the context of the audit objectives can help them assess the risk of noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse.

**6.20** A subset of these categories of internal control objectives is the safeguarding of assets and resources. Controls over the safeguarding of assets and resources include policies and procedures that the audited entity has implemented to reasonably prevent or promptly detect unauthorized acquisition, use, or disposition of assets and resources.

**6.21** In performance audits, a deficiency in internal control<sup>134</sup> exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

**6.22** Internal auditing is an important part of overall governance, accountability, and internal control. A key role of many internal audit organizations is to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives. The auditor may determine that it is appropriate to use the work of the internal auditors in the auditor's assessment of the effectiveness of design or operation of internal controls that are significant within the context of the audit objectives.<sup>135</sup>

### Information Systems Controls

**6.23** Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems.

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<sup>134</sup>See paragraph A.05 for additional discussion of internal control deficiencies.

<sup>135</sup>See paragraphs 6.40 through 6.44 for standards and guidance for using the work of other auditors.

Information systems controls consist of those internal controls that are dependent on information systems processing and include general controls, application controls, and user controls.

**a.** Information systems general controls (entitywide, system, and application levels) are the policies and procedures that apply to all or a large segment of an entity's information systems. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. General controls include security management, logical and physical access, configuration management, segregation of duties, and contingency planning.

**b.** Application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master file, interface, and data management system controls.

**c.** User controls are portions of controls that are performed by people interacting with information system controls. A user control is an information system control if its effectiveness depends on information systems processing or the reliability (accuracy, completeness, and validity) of information processed by information systems.

**6.24** An organization's use of information systems controls may be extensive; however, auditors are primarily interested in those information systems controls that are significant to the audit objectives. Information systems controls are significant to the audit objectives if auditors determine that it is necessary to evaluate the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence. When information systems controls are determined to be significant to the audit objectives or when the effectiveness of significant controls is dependent on the effectiveness of information systems controls, auditors should then evaluate the design and operating effectiveness of such controls. This evaluation would include other information systems

controls that impact the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives.<sup>136</sup>

**6.25** Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit.

**6.26** The evaluation of information systems controls may be done in conjunction with the auditors' consideration of internal control within the context of the audit objectives<sup>137</sup> or as a separate audit objective or audit procedure, depending on the objectives of the audit. Depending on the significance of information systems controls to the audit objectives, the extent of audit procedures to obtain such an understanding may be limited or extensive. In addition, the nature and extent of audit risk related to information systems controls are affected by the nature of the hardware and software used, the configuration of the entity's systems and networks, and the entity's information systems strategy.

**6.27** Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. The following factors may assist auditors in making this determination:

**a.** The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems.

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<sup>136</sup>Refer to additional criteria and guidance in *Federal Information System Controls Audit Manual (FISCAM)*, GAO-09-232G (Washington, D.C.: February 2009) and *IS Standards, Guidelines and Procedures for Auditing and Control Professionals*, published by the Information Systems Audit and Control Association (ISACA).

<sup>137</sup>See paragraphs 6.16 through 6.22 for additional discussion on internal control.

**b.** The availability of evidence outside the information system to support the findings and conclusions: It may not be possible for auditors to obtain sufficient, appropriate evidence without evaluating the effectiveness of relevant information systems controls. For example, if information supporting the findings and conclusions is generated by information systems or its reliability is dependent on information systems controls, there may not be sufficient supporting or corroborating information or documentary evidence that is available other than that produced by the information systems.

**c.** The relationship of information systems controls to data reliability: To obtain evidence about the reliability of computer-generated information, auditors may decide to evaluate the effectiveness of information systems controls as part of obtaining evidence about the reliability of the data. If the auditor concludes that information systems controls are effective, the auditor may reduce the extent of direct testing of data.

**d.** Evaluating the effectiveness of information systems controls as an audit objective: When evaluating the effectiveness of information systems controls is directly a part of an audit objective, auditors should test information systems controls necessary to address the audit objectives. For example, the audit may involve the effectiveness of information systems controls related to certain systems, facilities, or organizations.

## Provisions of Laws, Regulations, Contracts, and Grant Agreements, Fraud, and Abuse

### Provisions of Laws, Regulations, Contracts, and Grant Agreements

**6.28** Auditors should identify any provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives and assess the risk that noncompliance with provisions of laws, regulations, contracts or grant agreements could occur.<sup>138</sup> Based on that risk assessment, the auditors should design and

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<sup>138</sup>See paragraphs A.11 through A.13 for additional discussion on the significance of provisions of laws, regulations, contracts, or grant agreements.

perform procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that are significant within the context of the audit objectives.

**6.29** The auditors' assessment of audit risk may be affected by such factors as the complexity or newness of the laws, regulations, contracts or grant agreements. The auditors' assessment of audit risk also may be affected by whether the entity has controls that are effective in preventing or detecting noncompliance with provisions of laws, regulations, contracts, or grant agreements. If auditors obtain sufficient, appropriate evidence of the effectiveness of these controls, they can reduce the extent of their tests of compliance.

## Fraud

**6.30** In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives.<sup>139</sup> Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is a determination to be made through the judicial or other adjudicative system and is beyond auditors' professional responsibility. Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud. Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions. For example, auditors may obtain information through discussion with officials of the audited entity or through other means to determine the susceptibility of the program to fraud, the status of internal controls the audited entity has established to prevent and detect fraud, or the risk that officials of the audited entity could override internal control. An attitude of professional

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<sup>139</sup>See paragraph A.10 for examples of indicators of fraud risk.

skepticism in assessing these risks assists auditors in assessing which factors or risks could significantly affect the audit objectives.

**6.31** When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud. Assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit.

**6.32** When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings. If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement, or refer the matter to other parties with oversight responsibility or jurisdiction.

#### Abuse

**6.33** Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.<sup>140</sup> Abuse does not necessarily involve fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements.

**6.34** Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits. However, as part of a GAGAS audit, if auditors

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<sup>140</sup>See A.08 for additional examples of abuse.



become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives. After performing additional work, auditors may discover that the abuse represents potential fraud or noncompliance with provisions of laws, regulations contracts, or grant agreements.

### Ongoing Investigations and Legal Proceedings

**6.35** Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse. Laws, regulations, and policies may require auditors to report indications of certain types of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse to law enforcement or investigatory authorities before performing additional audit procedures. When investigations or legal proceedings are initiated or in process, auditors should evaluate the impact on the current audit. In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceeding.

### Previous Audits and Attestation Engagements

**6.36** Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the

nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

### Identifying Audit Criteria

**6.37** Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.<sup>141</sup>

### Identifying Sources of Evidence and the Amount and Type of Evidence Required

**6.38** Auditors should identify potential sources of information that could be used as evidence. Auditors should determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and adequately plan audit work.

**6.39** If auditors believe that it is likely that sufficient, appropriate evidence will not be available, they may revise the audit objectives or modify the scope and methodology and determine alternative procedures to obtain additional evidence or other forms of evidence to address the current audit objectives. Auditors should also evaluate whether the lack of sufficient, appropriate evidence is due to internal control deficiencies or

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<sup>141</sup>See paragraph A6.02 for examples of criteria.

other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for audit findings.<sup>142</sup>

### Using the Work of Others

**6.40** Auditors should determine whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the current audit objectives. The results of other auditors' work may be useful sources of information for planning and performing the audit. If other auditors have identified areas that warrant further audit work or follow-up, their work may influence the auditors' selection of objectives, scope, and methodology.

**6.41** If other auditors have completed audit work related to the objectives of the current audit, the current auditors may be able to use the work of the other auditors to support findings or conclusions for the current audit and, thereby, avoid duplication of efforts. If auditors use the work of other auditors, they should perform procedures that provide a sufficient basis for using that work. Auditors should obtain evidence concerning the other auditors' qualifications and independence and should determine whether the scope, quality, and timing of the audit work performed by the other auditors is adequate for reliance in the context of the current audit objectives. Procedures that auditors may perform in making this determination include reviewing the other auditors' report, audit plan, or audit documentation, and/or performing tests of the other auditors' work. The nature and extent of evidence needed will depend on the significance of the other auditors' work to the current audit objectives and the extent to which the auditors will use that work.<sup>143</sup>

**6.42** Some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist. Specialists to whom this section applies include, but are

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<sup>142</sup>See paragraphs 6.56 through 6.72 for standards concerning evidence.

<sup>143</sup>See paragraph 3.107 for additional discussion on using the work of other auditors and peer review reports.

not limited to, actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, and information technology experts. If auditors intend to use the work of specialists, they should assess the professional qualifications and independence of the specialists.

**6.43** Auditors' assessment of professional qualifications of the specialist involves the following:

- a.** the professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate;
- b.** the reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance;
- c.** the specialist's experience and previous work in the subject matter; and
- d.** the auditors' prior experience in using the specialist's work.

**6.44** Auditors' assessment of the independence of specialists who perform audit work includes identifying threats and applying any necessary safeguards in the same manner as they would for auditors performing work on those audits.<sup>144</sup>

#### Assigning Staff and Other Resources

**6.45** Audit management should assign sufficient staff and specialists with adequate collective professional competence to perform the audit.<sup>145</sup> Staffing an audit includes, among other things:

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<sup>144</sup>See paragraphs 3.02 through 3.26 for additional discussion related to independence and applying the conceptual framework approach to independence.

<sup>145</sup>See paragraphs 3.72 and 3.79 through 3.81 for additional discussion of using specialists in a GAGAS audit.

- a. assigning staff and specialists with the collective knowledge, skills, and experience appropriate for the job,
- b. assigning a sufficient number of staff and supervisors to the audit,
- c. providing for on-the-job training of staff, and
- d. engaging specialists when necessary.

**6.46** If planning to use the work of a specialist, auditors should document the nature and scope of the work to be performed by the specialist, including

- a. the objectives and scope of the specialist's work,
- b. the intended use of the specialist's work to support the audit objectives,
- c. the specialist's procedures and findings so they can be evaluated and related to other planned audit procedures, and
- d. the assumptions and methods used by the specialist.

#### Communicating with Management, Those Charged with Governance, and Others

**6.47** Auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors' ability to obtain sufficient, appropriate evidence to address the audit objectives, such as when the auditors plan to conduct unannounced cash counts or perform procedures related to indications of fraud. Auditors should communicate with the following parties, as applicable:

**a.** management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited;

**b.** those charged with governance;<sup>146</sup>

**c.** the individuals contracting for or requesting audit services, such as contracting officials or grantees; and

**d.** the cognizant legislative committee, when auditors perform the audit pursuant to a law or regulation or they conduct the work for the legislative committee that has oversight of the audited entity.

**6.48** In those situations where there is not a single individual or group that both oversees the strategic direction of the audited entity and the fulfillment of its accountability obligations or in other situations where the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached for identifying the appropriate individuals to receive the required auditor communications.

**6.49** Determining the form, content, and frequency of the communication is a matter of professional judgment, although written communication is preferred. Auditors may use an engagement letter to communicate the information. Auditors should document this communication.

**6.50** If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit, and other appropriate

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<sup>146</sup>See paragraphs A1.05 through A1.07 for a discussion of the role of those charged with governance.

officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.

### Preparing a Written Audit Plan

**6.51** Auditors must prepare a written audit plan for each audit. The form and content of the written audit plan may vary among audits and may include an audit strategy, audit program, project plan, audit planning paper, or other appropriate documentation of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.

**6.52** A written audit plan provides an opportunity for audit organization management to supervise audit planning and to determine whether

- a.** the proposed audit objectives are likely to result in a useful report;
- b.** the audit plan adequately addresses relevant risks;
- c.** the proposed audit scope and methodology are adequate to address the audit objectives;
- d.** available evidence is likely to be sufficient and appropriate for purposes of the audit; and
- e.** sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to perform the audit and to meet expected time frames for completing the work.

## **Supervision**

**6.53** Audit supervisors or those designated to supervise auditors must properly supervise audit staff.

**6.54** Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training.<sup>147</sup>

**6.55** The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the staff.

## **Obtaining Sufficient, Appropriate Evidence**

**6.56** Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions.

**6.57** The concept of sufficient, appropriate evidence is integral to an audit. Appropriateness is the measure of the quality of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives.<sup>148</sup> In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. In assessing the sufficiency of evidence, auditors should

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<sup>147</sup>See paragraph 6.83c for the documentation requirement related to supervision.

<sup>148</sup>See paragraph A6.05 for additional discussion of the appropriateness of evidence.



determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable.

**6.58** In assessing evidence, auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Audit objectives may vary widely, as may the level of work necessary to assess the sufficiency and appropriateness of evidence to address the objectives. For example, in establishing the appropriateness of evidence, auditors may test its reliability by obtaining supporting evidence, using statistical testing, or obtaining corroborating evidence. The concepts of audit risk and significance assist auditors with evaluating the audit evidence.<sup>149</sup>

**6.59** Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole. Interpreting, summarizing, or analyzing evidence is typically used in the process of determining the sufficiency and appropriateness of evidence and in reporting the results of the audit work. When appropriate, auditors may use statistical methods to analyze and interpret evidence to assess its sufficiency.

### Appropriateness

**6.60** Appropriateness is the measure of the quality of evidence that encompasses the relevance, validity, and reliability of evidence used for addressing the audit objectives and supporting findings and conclusions.<sup>150</sup>

**a.** Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the issue being addressed.

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<sup>149</sup>See paragraphs 6.04 and 6.05 for a discussion of significance and audit risk.

<sup>150</sup>See paragraph A6.05 for additional guidance regarding assessing the appropriateness of evidence in relation to the audit objectives.

**b.** Validity refers to the extent to which evidence is a meaningful or reasonable basis for measuring what is being evaluated. In other words, validity refers to the extent to which evidence represents what it is purported to represent.

**c.** Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.<sup>151</sup>

**6.61** There are different types and sources of evidence that auditors may use, depending on the audit objectives. Evidence may be obtained by observation, inquiry, or inspection. Each type of evidence has its own strengths and weaknesses.<sup>152</sup> The following contrasts are useful in judging the appropriateness of evidence. However, these contrasts are not adequate in themselves to determine appropriateness. The nature and types of evidence to support auditors' findings and conclusions are matters of the auditors' professional judgment based on the audit objectives and audit risk.

**a.** Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.

**b.** Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.

**c.** Examination of original documents is generally more reliable than examination of copies.

**d.** Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.

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<sup>151</sup>See paragraph 6.66 for a discussion of computer-processed information and guidance on data reliability.

<sup>152</sup>See paragraph A6.04 for additional guidance regarding the types of evidence.

**e.** Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about the area.

**f.** Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence obtained from management of the audited entity or others who have a direct interest in the audited entity.

**6.62** Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence. Documentary evidence may be used to help verify, support, or challenge testimonial evidence.

**6.63** Surveys generally provide self-reported information about existing conditions or programs. Evaluation of the survey design and administration assists auditors in evaluating the objectivity, credibility, and reliability of the self-reported information.

**6.64** When sampling is used, the method of selection that is appropriate will depend on the audit objectives. When a representative sample is needed, the use of statistical sampling approaches generally results in stronger evidence than that obtained from nonstatistical techniques. When a representative sample is not needed, a targeted selection may be effective if the auditors have isolated risk factors or other criteria to target the selection.

**6.65** When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. The auditor may find it necessary to perform testing of management's procedures to obtain assurance or perform direct testing of the information. The nature and extent of the auditors' procedures will depend on the significance of the information to the audit objectives and the nature of the information being used.

**6.66** Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the audited entity's internal controls over the information, including information systems controls, and the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives.<sup>153</sup> The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes.<sup>154</sup>

### Sufficiency

**6.67** Sufficiency is a measure of the quantity of evidence used for addressing the audit objectives and supporting findings and conclusions. Sufficiency also depends on the appropriateness of the evidence. In determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions.

**6.68** The following presumptions are useful in judging the sufficiency of evidence. The sufficiency of evidence required to support the auditors' findings and conclusions is a matter of the auditors' professional judgment.

- a.** The greater the audit risk, the greater the quantity and quality of evidence required.
- b.** Stronger evidence may allow less evidence to be used.

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<sup>153</sup>See paragraphs 6.23 through 6.27 for additional discussion on assessing the effectiveness of information systems controls.

<sup>154</sup>Refer to additional guidance in *Assessing the Reliability of Computer-Processed Data*, GAO-09-680G (Washington, D.C.: July 2009).

**c.** Having a large volume of audit evidence does not compensate for a lack of relevance, validity, or reliability.

### Overall Assessment of Evidence

**6.69** Auditors should determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives. Professional judgments about the sufficiency and appropriateness of evidence are closely interrelated, as auditors interpret the results of audit testing and evaluate whether the nature and extent of the evidence obtained is sufficient and appropriate. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.

**6.70** Sufficiency and appropriateness of evidence are relative concepts, which may be thought of in terms of a continuum rather than as absolutes. Sufficiency and appropriateness are evaluated in the context of the related findings and conclusions. For example, even though the auditors may have some limitations or uncertainties about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence to support the findings and conclusions.

**6.71** When assessing the sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk. The steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the audit or report, and the audit objectives.

**a.** Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives.

**b.** Evidence is not sufficient or not appropriate when (1) using the evidence carries an unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion, (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence, or (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. Auditors should not use such evidence as support for findings and conclusions.

**6.72** Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Limitations also include errors identified by the auditors in their testing. When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures, as appropriate. Such procedures include

**a.** seeking independent, corroborating evidence from other sources;

**b.** redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence;

**c.** presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions;<sup>155</sup> and

**d.** determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies.

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<sup>155</sup>See paragraph 7.15 for additional reporting requirements when there are limitations or uncertainties with the validity or reliability of evidence.

## Developing Elements of a Finding

**6.73** Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives.<sup>156</sup> In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding. For example, an audit objective may be to determine the current status or condition of program operations or progress in implementing legislative requirements, and not the related cause or effect. In this situation, developing the condition would address the audit objective and development of the other elements of a finding would not be necessary.

**6.74** The element of criteria is discussed in paragraph 6.37, and the other elements of a finding—condition, effect, and cause—are discussed in paragraphs 6.75 through 6.77.

**6.75** Condition: Condition is a situation that exists. The condition is determined and documented during the audit.

**6.76** Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.<sup>157</sup>

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<sup>156</sup>See paragraph A6.06 for additional discussion on findings.

<sup>157</sup>See paragraph A6.06 for additional discussion on cause.

**6.77** Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.<sup>158</sup>

### Early Communication of Deficiencies

**6.78** Auditors report deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse. For some matters, early communication to those charged with governance or management may be important because of their relative significance and the urgency for corrective follow-up action. Further, when a control deficiency results in noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, early communication is important to allow management to take prompt corrective action to prevent further noncompliance. When a deficiency is communicated early, the reporting requirements in paragraph 7.18 through 7.23 still apply.

### **Audit Documentation**

**6.79** Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions

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<sup>158</sup>See paragraph A6.07 for additional discussion on effect.



reached, including evidence that supports the auditors' significant judgments and conclusions. An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to conduct the performance audit. These competencies and skills include an understanding of (1) the performance audit processes, (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter associated with achieving the audit objectives, and (4) issues related to the audited entity's environment.

**6.80** Auditors should prepare audit documentation that contains evidence that supports the findings, conclusions, and recommendations before they issue their report.

**6.81** Auditors should design the form and content of audit documentation to meet the circumstances of the particular audit. The audit documentation constitutes the principal record of the work that the auditors have performed in accordance with standards and the conclusions that the auditors have reached. The quantity, type, and content of audit documentation are a matter of the auditors' professional judgment.

**6.82** Audit documentation is an essential element of audit quality. The process of preparing and reviewing audit documentation contributes to the quality of an audit. Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality.

**6.83** Auditors should document<sup>159</sup> the following:

- a.** the objectives, scope, and methodology of the audit;
- b.** the work performed and evidence obtained to support significant judgments and conclusions, including descriptions of transactions and records examined (for example,

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<sup>159</sup>See paragraphs 6.06, 6.46, 6.48, 6.49, 6.50, 6.69, 6.84, 7.19, 7.22, and 7.44 for additional documentation requirements regarding performance audits.

by listing file numbers, case numbers, or other means of identifying specific documents examined, but copies of documents examined or detailed listings of information from those documents are not required); and

c. supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.

**6.84** When auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions. This applies to departures from unconditional requirements and from presumptively mandatory requirements when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard.<sup>160</sup>

**6.85** Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to perform audits in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. Subject to applicable laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers to satisfy these objectives. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals, as well as audit documentation.

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<sup>160</sup>See paragraphs 2.24 and 2.25 for additional requirements on citing compliance with GAGAS.

## Chapter 7

### Reporting Standards for Performance Audits

#### **Introduction**

**7.01** This chapter contains reporting requirements and guidance for performance audits conducted in accordance with generally accepted government auditing standards (GAGAS). The purpose of reporting requirements is to establish the overall approach for auditors to apply in communicating the results of the performance audit. The reporting requirements for performance audits relate to the form of the report, the report contents, and report issuance and distribution.<sup>161</sup>

**7.02** For performance audits conducted in accordance with GAGAS, the requirements and guidance in chapters 1 through 3, 6, and 7 apply.

#### **Reporting**

**7.03** Auditors must issue audit reports communicating the results of each completed performance audit.

**7.04** Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form.<sup>162</sup> For example, auditors may present audit reports using electronic media that are retrievable by report users and the audit organization. The users' needs will influence the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials.

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<sup>161</sup>See paragraph A7.02 for a description of report quality elements.

<sup>162</sup>See paragraph 7.43 for situations when audit organizations are subject to public records laws.

**7.05** The purposes of audit reports are to (1) communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, unless specifically limited;<sup>163</sup> and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken.

**7.06** If an audit is terminated before it is completed and an audit report is not issued, auditors should follow the guidance in paragraph 6.50.

**7.07** If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.

## **Report Contents**

**7.08** Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with

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<sup>163</sup>See paragraph 7.40 for additional guidance on classified or limited use reports and paragraph 7.44b for distribution of reports for internal auditors.

GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted.

### Objectives, Scope, and Methodology

**7.09** Auditors should include in the report a description of the audit objectives and the scope and methodology used for addressing the audit objectives. Report users need this information to understand the purpose of the audit, the nature and extent of the audit work performed, the context and perspective regarding what is reported, and any significant limitations in audit objectives, scope, or methodology.

**7.10** Audit objectives for performance audits may vary widely. Auditors should communicate audit objectives in the audit report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions. When audit objectives are limited but broader objectives could be inferred by users, auditors should state in the audit report that certain issues were outside the scope of the audit in order to avoid potential misunderstanding.

**7.11** Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials or excessive delays of access to certain records or individuals.

**7.12** In describing the work conducted to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate.

**7.13** In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors may include a description of the procedures performed as part of their assessment of the sufficiency and appropriateness of information used as audit evidence. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population.

### Reporting Findings

**7.14** In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Clearly developed findings<sup>164</sup> assist management and oversight officials of the audited entity in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. However, the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.

**7.15** Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. As discussed in paragraphs 6.69 through 6.72, even though the auditors may have some

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<sup>164</sup>See paragraphs 6.73 through 6.77 for additional discussion on developing the elements of a finding.

uncertainty about the sufficiency or appropriateness of some of the evidence, they may nonetheless determine that in total there is sufficient, appropriate evidence given the findings and conclusions. Auditors should describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope, and methodology. Additionally, this description provides report users with a clear understanding regarding how much responsibility the auditors are taking for the information.

**7.16** Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.

**7.17** Auditors may provide background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed. Appropriate background information may include information on how programs and operations work; the significance of programs and operations (e.g., dollars, impact, purposes, and past audit work, if relevant); a description of the audited entity's responsibilities; and explanation of terms, organizational structure, and the statutory basis for the program and operations. When reporting on the results of their work, auditors should disclose significant facts relevant to the objectives of their work and known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices.

**7.18** Auditors should also report deficiencies in internal control, instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or

abuse that have occurred or are likely to have occurred and are significant within the context of the audit objectives.

## Deficiencies in Internal Control

**7.19** Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed.<sup>165</sup> When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report. Determining whether or how to communicate to officials of the audited entity deficiencies that are inconsequential within the context of the audit objectives is a matter of professional judgment. Auditors should document such communications.

**7.20** In a performance audit, auditors may conclude that identified deficiencies in internal control that are significant within the context of the audit objectives are the cause of deficient performance of the program or operations being audited. In reporting this type of finding, the internal control deficiency would be described as the cause.

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<sup>165</sup>See paragraph 6.21 for a discussion of internal control deficiencies in performance audits and paragraph A.06 for examples of deficiencies in internal control.



## Fraud, Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements, and Abuse

**7.21** When auditors conclude, based on sufficient, appropriate evidence, that fraud,<sup>166</sup> noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse<sup>167</sup> either has occurred or is likely to have occurred which is significant within the context of the audit objectives, they should report the matter as a finding. Whether a particular act is, in fact, fraud or noncompliance with provisions of laws, regulations, contracts or grant agreements may have to await final determination by a court of law or other adjudicative body.

**7.22** When auditors detect instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that are not significant within the context of the audit objectives but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate to audited entity officials is a matter of professional judgment. Auditors should document such communications.

**7.23** When fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.

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<sup>166</sup>See paragraph A.10 for examples of indicators of fraud risk.

<sup>167</sup>See paragraph A.08 for examples of abuse.

## Reporting Findings Directly to Parties Outside the Audited Entity

**7.24** Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances.

**a.** When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.

**b.** When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is significant to the findings and conclusions and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

**7.25** The reporting in paragraph 7.24 is in addition to any legal requirements for the auditor to report such information directly to parties outside the audited entity. Auditors should comply with these requirements even if they have resigned or been dismissed from the audit prior to its completion. Internal audit organizations do not have a duty to report outside the audited entity unless required by law, rule, regulation, or policy.<sup>168</sup>

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<sup>168</sup>See paragraph 7.44b for reporting standards for internal audit organizations when reporting externally.

**7.26** Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly as discussed in paragraph 7.24 and 7.25.

### Conclusions

**7.27** Auditors should report conclusions based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are more compelling if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary.

### Recommendations

**7.28** Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended.

**7.29** Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.

### Reporting Auditors' Compliance with GAGAS

**7.30** When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS.<sup>169</sup>

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**7.31** When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report. For performance audits, auditors should use a statement that includes either (1) the language in 7.30, modified to indicate the requirements that were not followed or (2) language that the auditor did not follow GAGAS.<sup>170</sup>

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<sup>169</sup>See paragraphs 2.24 and 2.25 for additional standards on citing compliance with GAGAS.

<sup>170</sup>See paragraphs 2.24 and 2.25 for additional standards on citing compliance with GAGAS.

## Reporting Views of Responsible Officials

**7.32** Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions.

**7.33** Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective. Including the views of responsible officials results in a report that presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable.

**7.34** When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.

**7.35** Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received.

**7.36** Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the work and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with the findings, conclusions, and recommendations in the draft, or major controversies with regard to the issues discussed in the draft report.

**7.37** When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

**7.38** If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.

#### Reporting Confidential and Sensitive Information

**7.39** If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that make the omission necessary.

**7.40** Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified or limited use report containing such information and distribute the report only to persons authorized by law or regulation to receive it.

**7.41** Additional circumstances associated with public safety, privacy, or security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because of the potential damage that could be caused by the misuse of this information. In such circumstances, auditors may issue a limited use report containing such

information and distribute the report only to those parties responsible for acting on the auditors' recommendations. In some instances, it may be appropriate to issue both a publicly available report with the sensitive information excluded and a limited use report. The auditors may consult with legal counsel regarding any requirements or other circumstances that may necessitate the omission of certain information.

**7.42** Considering the broad public interest in the program or activity under audit assists auditors when deciding whether to exclude certain information from publicly available reports. When circumstances call for omission of certain information, auditors should evaluate whether this omission could distort the audit results or conceal improper or illegal practices.

**7.43** When audit organizations are subject to public records laws, auditors should determine whether public records laws could impact the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. For example, the auditors may communicate general information in a written report and communicate detailed information orally. The auditor may consult with legal counsel regarding applicable public records laws.

## **Distributing Reports**

**7.44** Distribution of reports completed in accordance with GAGAS depends on the relationship of the auditors to the audited organization and the nature of the information contained in the report. Auditors should document any limitation on report distribution.<sup>171</sup> The following discussion outlines distribution for reports completed in accordance with GAGAS:

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<sup>171</sup>See paragraphs 7.40 and 7.41 for discussion of limited use reports containing confidential or sensitive information.

**a.** Audit organizations in government entities should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.

**b.** Internal audit organizations in government entities may also follow the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*.<sup>172</sup> In accordance with GAGAS and IIA standards, the head of the internal audit organization should communicate results to parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should: (1) assess the potential risk to the organization, (2) consult with senior management or legal counsel as appropriate, and (3) control dissemination by indicating the intended users of the report.

**c.** Public accounting firms contracted to perform an audit in accordance with GAGAS should clarify report distribution responsibilities with the engaging organization. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public.

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<sup>172</sup>See paragraph 2.21 for additional discussion about using the IIA standards in conjunction with GAGAS and paragraph 2.22 for additional discussion about citing compliance with another set of standards.