

## **Council of Inspectors General on Integrity and Efficiency Guidance on Internal Control for Performance Audits**

As applicable to *Government Auditing Standards* 2018 Revision and  
Technical Update April 2021 related to Internal Control

This document is intended to:

- Provide an overview of revised internal control requirements in the 2018 revision to *Government Auditing Standards* (GAS) as well as the Government Accountability Office's April 2021 Technical Update.<sup>1</sup>
- Offer plain-language interpretations to aid auditors in considering and documenting their work on internal control as it relates to the audit objective.
- Focus on the revised requirement for reporting on the scope of work on internal control as well as the requirement for assessing internal control as it relates to planning the engagement, conducting the engagement, and documenting evidence (as applicable).

The revised GAS clarifies how to assess the significance of, and report on internal control. Similar to the 2011 GAS, the 2018 revision requires that auditors base their review only on those controls they deem "significant"<sup>2</sup> to the audit objective. A major change is in the requirement<sup>3</sup> at **GAS 9.30** to report on the scope of audit work performed to assess internal control "to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations" in the audit report.

### **Requirements for Assessing Internal Control**

The Fieldwork Standards addressed in the following paragraphs are provided to support the primary change to GAS as it relates to the nature and extent of auditor's work on internal control.

### **Fieldwork Standards – Planning the Engagement**

Although GAS does not specifically address internal control under the planning element of fieldwork standards, GAS does address and/or refer to internal control planning throughout the section related to Conducting the Engagement, as addressed below:

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<sup>1</sup> GAO-21-368G, April 2021

<sup>2</sup> The term "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 matter's effect on 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" (**GAS 8.15**). See **GAS 8.41** for additional guidance.

<sup>3</sup> This means that auditors must comply except in rare circumstances as stated in **GAS 2.03, 2.04, and 2.08**.

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1. **GAS 8.36** states, "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."
  - As application guidance, **GAS 8.38c** lists internal control as an aspect of an audited entity that may need to be understood and is defined as
    - a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.
2. **GAS 8.45** application guidance notes that:

Determining the significance of internal control to the audit objectives affects the audit planning required in paragraphs **8.03** through **8.07**. Specifically, it enables auditors to determine whether to assess internal control as part of the audit and, if they do, to identify criteria for the assessment and plan the appropriate scope, methodology, and extent of internal control assessments to perform.<sup>[4,5]</sup>
3. **GAS 8.59** states, "when obtaining an understanding of internal control significant to the audit objectives [which is the core focus of auditors review and consideration of internal control, and what auditors perform as part of GAS 8.39, noted in the next section], auditors should also determine whether it is necessary to evaluate information systems controls." If an evaluation of information system controls is deemed necessary, "auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the work within the context of the audit objectives." (**GAS 8.60**)
  - **Interpretation:** Gaining an understanding of the internal control of the program under audit should begin during the planning phase of the audit. This will help to facilitate a determination of which internal controls are significant to the audit objective and allow for the planning and development of appropriate steps to take to assess significant internal control. It should be noted that audit planning is a continuous process, and audit plans or steps should be reevaluated and adjusted throughout the audit, as necessary.

### **Fieldwork Standards – Conducting the Engagement**

1. In accordance with **GAS 8.39**, Auditors should determine and document whether internal control is significant to the audit objectives.

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<sup>4</sup> Auditors must adequately plan the work necessary to address the audit objectives. Auditors must document the audit plan. (**GAS 8.03**)

<sup>5</sup> Auditors should identify and use suitable criteria based on the audit objectives. (**GAS 8.07**)

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- a. Application guidance at **GAS 8.42** notes that if internal control is significant to the audit objectives, auditors *determine* which of the five components of internal control are significant to the audit objective.

Note: Determining the significance of internal control *may be documented in formats such as narratives or tables*. The documentation includes the conclusions on whether internal control is significant to the audit objectives, and if so, which components of internal control. Documentation may also include the factors considered and steps taken to perform the determination. (**GAS 8.44**)

- b. Further, application guidance at **GAS 8.42** states that although all components of internal control are generally relevant, not all components may be significant to the audit objectives. This determination can also identify the underlying principles, control objectives, or specific controls that are significant to the audit objectives. Determining which internal control components, principles, control objectives, and/or specific controls are significant to the audit objectives is a matter of professional judgment.
- c. Finally, application guidance at **GAS 8.43** notes that determining the significance of internal control may be an iterative process since the audit objectives may evolve and become more refined throughout the audit.

Note: Revised audit objectives should be documented in the audit file, and a reassessment of the significance of internal control should be made based on the revised objective.

2. **GAS 8.40** states, "if internal control is significant to the audit objectives, auditors should obtain an understanding of such internal control."
  - a. Application guidance at **GAS 8.46** notes that the nature and extent of procedures for auditors to perform to attain an understanding of internal control is a matter of *professional judgment* and may vary among audits based on audit objectives, audit risk, internal control deficiencies, and the auditors' knowledge about internal control gained in prior audits. The understanding of internal control builds on the understanding of the program required in **GAS 8.36**.
  - b. **GAS 8.49** requires that if internal control is significant to the audit objectives, auditors should plan and perform audit procedures to assess internal control to the extent necessary to address the audit objectives. Further, under application guidance at **GAS 8.50**, the levels of internal control assessment that may be performed based on the audit objectives are (1) assessing the design; (2) assessing the design and implementation; or (3) assessing the design, implementation, and operating effectiveness of controls that are significant to the audit objectives.
  - c. **GAS 8.54** requires that auditors should evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives.

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- **Interpretation:** The audit work performed to assess and document the significance of internal control to the audit objective is at the discretion of the audit team, and ultimately supports the requirement to identify the scope of internal control assessed to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations. That is, the requirement to include language in the scope section of the report, per **GAS 9.29** and **9.30**. At auditors' discretion, they may document this work through the use of a matrix or table (examples are provided for your consideration and potential use). (GAS 9.29 and 9.30 as well as related sections at 8.39, 8.40, 8.49, 8.54 are included on the CIGIE peer review checklist.)
3. **GAS 8.59** requires auditor to determine whether it is necessary to evaluate information systems controls. If auditors determine that information systems controls are significant to the audit objectives, or if the effectiveness of controls depends on the effectiveness of information systems controls, auditors should:
    - a. Evaluate the design, implementation, and/or operating effectiveness of information system controls, including other information systems controls that affect the effectiveness of the significant controls or the reliability of information used in performing the significant controls. (**GAS 8.60**)
    - b. Determine the audit procedures related to information systems controls needed to obtain sufficient, appropriate evidence to support findings and conclusions. (**GAS 8.61**)
    - c. Test information systems controls to the extent necessary to address the objective if the engagement objective is to evaluate information systems controls. (**GAS 8.62**)

### **Fieldwork Standards – Evidence**

1. **GAS 8.117** requires that when internal control is significant to the audit objectives, auditors should consider internal control deficiencies when developing the cause element of identified findings (included on the CIGIE peer review checklist).
  - a. Application guidance at **GAS 8.118** notes that findings may involve internal control deficiencies.
  - b. Application guidance at **GAS 8.119** states that evaluating internal control in a government environment may also include considering internal control deficiencies that result in waste or abuse.

Note: Although auditors are not required to perform specific procedures to detect waste or abuse, they may consider whether and how to communicate such matters if they become aware of them.

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- c. Application guidance at **GAS 8.129** notes that the cause of a finding may relate to an underlying internal control deficiency.
  - d. Application guidance at **GAS 8.130** states that considering internal control in the context of a comprehensive internal control framework<sup>6</sup> can help auditors to determine whether underlying internal control deficiencies exist as the root cause of the findings.
2. Regarding sufficiency and appropriateness of audit evidence as it relates to auditors' evaluation of internal control, the following should be considered:
- a. **GAS 8.77** notes that 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.
  - b. **GAS 8.78**, it requires that auditors should evaluate whether any lack of sufficient, appropriate evidence is caused by internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for audit findings (included on the CIGIE peer review checklist).
    - Application guidance at **GAS 8.98** notes that the nature, timing, and extent of audit procedures to assess sufficiency and appropriateness of evidence are affected by the effectiveness of the audited entity's internal control over the information, including information systems controls. The sufficiency and appropriateness of computer-processed information is assessed regardless of whether this information is provided to auditors or auditors independently extract it.
  - c. **GAS 8.110** requires that when auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should perform additional procedures, as appropriate.
    - Application guidance at **GAS 8.115** addresses additional procedures that could address evidence limitations or uncertainties, including seeking independent, corroborating evidence from other sources, or determining whether to report such limitations or uncertainties as a finding, including any related significant internal control deficiencies.
- **Interpretation:** During the assessment of evidence, auditors should determine whether internal control deficiencies exist as the root cause of the finding. For example, auditors conducting a compliance audit may find that an audited entity has not complied with certain legislation, policies, and procedures. Upon further evaluation, the auditors may find the root cause of the finding is that the entity's control activities were not properly designed. In this case, the finding would be an

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<sup>6</sup> *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2013)

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instance of noncompliance, but the cause of the finding would be an internal control deficiency.

### **Requirements for Reporting on Internal Control**

**GAS 9.29–9.31** contain the requirements for reporting on internal control. The use of the word “should” makes it a presumptively mandatory requirement. **GAS 9.32–9.34** contain the application guidance and, as it relates to technical changes to GAS, allows for discretion as to what auditors “may” include in the report when adhering to the requirement to report on the scope of the auditor’s work on internal control.

**GAS 9.29** states, “When internal control is significant within the context of the audit objectives, 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.”

**GAS 9.30** states, “When reporting on the scope of their work on internal control, auditors should identify the scope of internal control assessed to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations in the audit report.” (included on Council of Inspectors General on Integrity and Efficiency (CIGIE) peer review checklist).

- **Interpretation:** When internal control is considered significant to the audit objective, the following should be documented in the audit report:
  - **GAS 9.29 (1)** and **GAS 9.30**—The breadth of work that was performed on internal control, bearing in mind that in accordance with GAS 9.30, there is now more discretion on the part of the audit team regarding how much detail to include in the Methodology section of the report related to the scope of work on internal control “to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations.” This generally may include such information as specific or relevant guidance, policies, procedures, standard operating procedures and other *controls* that the audit team reviewed, analyzed, or tested to meet its audit objective. In addition to listing the scope of the teams’ work on internal control in the Methodology section, corresponding language may be added to the standard GAGAS compliance statement regarding (purely at the discretion of the audit team) what it deemed to be the appropriate mix of control components, principles, objectives, or specific internal controls to ensure end users of a given report could reasonably interpret the findings, conclusions, and recommendations.
  - **GAS 9.29 (2)**—internal control deficiencies relevant to the audit objectives (generally as part of the audit findings, often as the underlying cause, addressed throughout the report where necessary) that are determined by the auditor to be a reportable issue (i.e., significant) (included on CIGIE peer review checklist)

- **Note regarding planning and performing audit procedures necessary to answer the audit objective (per GAS 8.42 and 8.49) and how it relates to meeting the requirement at GAS 9.29 and 9.30**– When internal control is found to be significant to the audit objectives (per GAS 8.39), the auditor has discretion on identifying and reviewing whatever mix of control components, underlying principles, control objectives, and specific controls are deemed necessary to answer the audit objective (as gleaned/paraphrased from GAS 8.42 and 8.49). As a reminder, per GAS 8.42, the mix of internal control components, principles, objectives, and specific controls to consider “is a matter of professional judgment.” Therefore, the auditor is required to document the work they performed in assessing internal control significant to the audit objective. GAS 8.49 states, “plan and perform audit procedures to assess internal control to the extent necessary to address audit objective,” which is then used to support the requirement at GAS 9.30 to report on “the scope of internal control assessed to the extent necessary to allow report users to reasonably interpret the findings, conclusions, and recommendations in the audit report” and also to support any actual internal control related findings that the audit team decides (at their discretion) to include within the body of the report.

There are many ways to meet the requirement at **GAS 9.30** (e.g., narrative form or appendix with associated table to list components, principles, control objectives, or specific controls assessed, or a combination of the two). While this document offers the following examples of report language that may be added to the Objective, Scope, Methodology section of the report, alternate language may be used or a different approach may be followed to meet **GAS 9.30**. I.e., all aspects of the examples presented may be used or revised in whole or in part, at the discretion of individual OIGs/audit teams.

#### **Example Report Language:**

1. In planning and performing our audit, we identified the following internal control components and underlying internal control principles, control objectives, and specific controls as significant to the audit objective(s) [per GAS 9.30, *at the discretion of the audit team, insert applicable components, principles, objectives, or specific controls deemed significant*]. We assessed the [revise based on scope of the internal control assessment: *design, implementation, and/or operating effectiveness*] of these internal controls and [if identified] deficiencies that we believe could affect the [name of auditee(s)]’s ability to [revise based on your specific audit: *effectively and efficiently operate, to correctly state financial and/or performance information, and/or to ensure compliance with laws and regulations*]. The internal control deficiencies we found are discussed in the Audit Results section of this report. [The following qualifying language may be used at the discretion of individual OIGs/audit teams] However, because our review was limited to [aspects of] these internal control components and underlying

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principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

2. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed internal control significant to our objective [at the discretion of the audit team insert/name the specific internal control component(s), underlying principle(s), controls objectives, and/or specific controls that were assessed]. [The following qualifying language may be used at the discretion of individual OIGs/audit teams] However, because our review was limited to this (these) aspect(s) of internal control, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit. Any internal control deficiencies we found are discussed in this report.

**GAS 9.31** states, "When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance,<sup>7</sup> they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. If the written communication is separate from the audit report, auditors should refer to that written communication in the audit report."

- **Interpretation:** Any internal control deficiencies identified throughout the audit that are not significant to the audit objectives, but that the auditor has determined, based on their professional judgment, require the attention of governance, must be reported by the auditor to governance in writing. The auditor has the option to include these deficiencies within the audit report, or under separate cover. If the auditor chooses to report those deficiencies under separate cover, the audit report must make reference to the separate communication (*included on CIGIE peer review checklist*).

### Application Guidance Interpretations

- Internal control components and/or associated principles that *are not* significant to the audit objective may be documented in the audit report if it is determined by the auditor that the information will be valuable to the reader's understanding of the work performed and conclusions made regarding internal control (to preclude a misunderstanding as to the breadth of the conclusions of the audit report and to clarify that control effectiveness has not been evaluated as a whole). **(Related to GAS 9.32)**
- Auditors may include a description of the five internal control components in the audit report so that report users understand the scope of the work within the context of the audited entity's internal control system. **(Related to GAS 9.32)**
- An internal control component is not considered effective if an underlying principle is not applied effectively. In turn, an internal control system is determined not to be effective if any of the five components or the respective principles are not effective. Additionally, if

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<sup>7</sup> Per **GAS 1.04** "Those charged with governance" refers to the individuals responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit, including related internal controls.

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the operation of the five components is not integrated, the internal control system is also considered not effective. **(Related to GAS 9.33)**

*Note: A full review of a given entity's system of internal control is not required. Application guidance at **GAS 9.32** notes that auditors may also identify the level of internal control assessment performed (e.g., design, implementation, operating effectiveness), as discussed in **GAS 8.50**. See Fieldwork Standards — Conducting the Engagement section.*

- If the auditor identifies internal control deficiencies that they determine *do not* require the attention of those charged with governance, reporting these deficiencies, and the manner in which they are reported (written or verbal), is at the discretion of the auditor. **(Related to GAS 9.34)**