Summary (in order of amount of changes required)

- Appendix B – General Standards
  - Major overhaul for changes to Independence and the conceptual framework, Non-audit services, Competence, and Quality Controls and Assurance
- Policy Guide and Appendix A
  - General changes to Ch 1 & 2
  - Changes for general standards, attestation engagements, financial and performance audits
- Appendix D – Attestation Engagements
  - Separated attestation requirements and clarification of types of attestation engagements
  - Update considerations/emphasis and removed duplicative language between AICPA and GAGAS
  - GAGAS additional requirements for Examination-Level Engagements
- Appendix C/F – Financial Audits Performed by OIG/IPAs
  - Streamlined language to harmonize with AICPA
  - Removal of duplicative languages
  - Clarified added requirements (GAGAS)
  - Applying certain AICPA standards related to materiality and early communication of deficiencies (SAS No. 115)
- Appendix E – Performance Audits
  - Updates to fraud reporting requirements
Detailed in order of the Peer Review Guide documents

- **Policy Guide**
  - Ch 2 - Clarified citing compliance with GAGAS
    - Determining appropriate GAGAS compliance statement is a matter of professional judgment
    - Departures from presumptively mandatory requirements
    - Using GAGAS with other standards
  - Changes for general standards, attestation engagements, financial and performance audits
- **Appendix A – Policies and Procedures**
  - Changes from all changes
- **Appendix B – General Standards: Major overhaul for changes to Independence, Competence, and Peer Review “requirements”**
  - Ch 3
  - Independence
    - In mind and appearance
    - Consider individual threats to independence singularly both individually and in aggregate
    - Consistency with IFAC and AICPA
    - Certain prohibitions remain generally consistent with Rule 101 AICPA
    - Conceptual Framework
      - When not in prohibition
      - Allows the auditor to assess unique circumstances
      - Adaptable
      - Incorporates the familiar categories of personal, external, and organizational independence
    - Threats to independence
      - Could impair independence but not necessarily result in impairment
      - Safeguards could mitigate threats (eliminate or reduce) to an acceptable level
        - Select non-impaired auditor
        - Separate engagement teams
        - Secondary reviews
    - Self-interest threat
    - Self-review threat
    - Bias threat
    - Familiarity threat
    - Undue influence threat
    - Management participation threat
Structural threat

- Non-audit services impact
- Others

Non-audit services
- Certain services may be permitted, and the auditor should assess the non-audit service’s impact on independence using the conceptual framework
- Management should take responsibility for non-audit services performed by the auditors
- Auditors should document their understanding with management regarding the non-audit service

Defined routine and non-audit services
- Routine audit services pertain directly to the audit and include
  - Providing advice related to an accounting matter
  - Researching/responding to an audited entity’s technical questions
  - Providing advice on routine business matters
  - Educating the audited entity on technical matters
- Other services not directly related to the audit
  - Financial statement preparation
  - Bookkeeping services
  - Cash to accrual conversions (a form of bookkeeping)
  - Other services not directly related to the audit

Non-audit services are permissible but need documentation
- In relation to the conceptual framework
- In relation to the auditor’s assessment of managements’ skill, knowledge or experience
  - Understanding of the nature of the service
  - Knowledge of the audited entity’s mission and operations
  - General business knowledge
  - Education
  - Position at the audited entity
  - Some factors may be given more weight than others
- GAGAS does not require that management have the ability to perform or re-perform the service

Prohibited non-audit services for external auditors
- Bookkeeping and financial statement preparation may be performed provided the auditor does not
  - Determine or change journal entries, account codes or classifications for transactions, or other accounting records without obtaining client approval
  - Authorize or approve transactions
✓ Prepare source documents
✓ Make changes to source documents without client approval

- Internal audit
  ✓ Setting internal audit policies or the strategic direction
  ✓ Deciding which recommendations resulting from internal audit activities to implement
  ✓ Taking responsibility for designing, implementing and maintaining internal control

- Internal Control Monitoring
  ✓ May not provide ongoing monitoring services
  ✓ May not design the system of internal controls and then assess its effectiveness

- IT Services
  ✓ Design or develop an IT system that would be subject to or part of an audit
  ✓ Make significant modifications to an IT system’s source code
  ✓ Operate or supervise an IT system

- Valuation Services that
  ✓ Would have a material effect
  ✓ Involve a significant degree of subjectivity
  ✓ Are the subject of an audit

- General non-audit services prohibition
  ✓ The period of the audit
  ✓ The professional engagement

- Documentation requirements
  ✓ The auditor’s application of safeguards to eliminate threats or reduce them to an appropriate level
  ✓ Consideration of audited entity management’s ability to effectively oversee a non-audit service to be provided by the auditor
  ✓ Safeguards required if a audit organization is structurally located within a government entity and is considered independent based on those safeguards (not an engagement-specific requirement)

  o Competence
    - Charge 20 percent or more of time annually to GAGAS assignments
    - External specialists and internal consulting specialists are not required to meet GAGAS CPE requirements, but should be qualified and maintain professional competence
    - Internal specialists serving as auditors are subject to all CPE requirement

  o Quality Controls and Assurance
    - Streamlined and added requirements for consistency with AICPA
- Communicate deficiencies noted
- Recommend remedial action

- Appendix C/F – Financial Audits Performed by OIG/IPAs
  o Ch 4
  o Streamlined language to harmonize with AICPA
  o Clarified added requirements
    ▪ Auditor communication
    ▪ Previous audits and attestation engagements
    ▪ Noncompliance with provisions of contracts or grant agreements, or abuse
    ▪ Developing elements of a finding
    ▪ Documentation
    ▪ Reporting auditors’ compliance with GAGAS
    ▪ Reporting on internal control, compliance with provisions of laws, regulations, contracts, and grant agreements, and other matters
    ▪ Reporting views of responsible officials
    ▪ Reporting confidential or sensitive information
    ▪ Distributing reports
  o Applying certain AICPA standards
    ▪ Materiality
    ▪ Early communication of deficiencies (SAS No. 115)
  o Removed
    ▪ Duplicative language between AICPA and GAGAS
      ✓ Restatements
      ✓ Internal control deficiency definitions
      ✓ Communication of significant matters
      ✓ Consideration of fraud and illegal acts
    ▪ Covered by the quality control system - Develop policies to address requests by outside parties to obtain access to audit documentation
    ▪ Covered by AICPA standards - Document terminated engagements

- Appendix D – Attestation Engagements
  o Ch 5
  o Separated attest requirements
    ▪ Examination
    ▪ Review
    ▪ Agreed-upon procedures
  o Update considerations
    ▪ Identified practice issue
    ▪ Clarified distinctions between engagement types
    ▪ Emphasized AICPA reporting requirements
  o Within each section, emphasized
    ▪ Citing compliance with GAGAS
    ▪ Required elements of AICPA reporting
- Communicating the services to be performed
  - Additional requirements for Examination-Level Engagements
    - Auditor communication
    - Previous audits and attestation engagements
    - Noncompliance with provisions of contracts or grant agreements, or abuse
    - Developing elements of a finding
    - Documentation
  - Removed duplicative language between AICPA and GAGAS
    - Internal control deficiency definitions
- Appendix E – Performance Audits
  - Ch 6 & 7
  - Reporting - Updates to fraud requirements
    - Report - Fraud occurrences significant to audit objectives
    - Communicated via written to those charged with governance - Fraud not significant within the context of the audit objectives but warrants attention