

- i. developing an audited entity's performance measurement system when that system is material or significant to the subject matter of the engagement; and
- j. serving as a voting member of an audited entity's management committee or board of directors.

3.82 Whether a specific activity is a management responsibility as identified in paragraph 3.81 or otherwise depends on the facts and circumstances.

Requirements: Providing Nonaudit Services

3.83 Auditors who previously provided nonaudit services for an entity that is a prospective subject of an engagement should evaluate the effect of those nonaudit services on independence before agreeing to conduct a GAGAS engagement. If auditors provided a nonaudit service in the period to be covered by the engagement, they should (1) determine if GAGAS expressly prohibits the nonaudit service; (2) if audited entity management requested the nonaudit service, determine whether the skill, knowledge, or experience of the individual responsible for overseeing the nonaudit service was sufficient; and (3) determine whether a threat to independence exists and address any threats noted in accordance with the conceptual framework.

3.84 Auditors in a government entity may be required to provide a nonaudit service that impairs the auditors' independence with respect to a required engagement. If, because of constitutional or statutory requirements over which they have no control, the auditors can neither implement safeguards to reduce the resulting threat to an acceptable level nor decline to provide or terminate a nonaudit service that is incompatible with engagement responsibilities, auditors should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement as discussed in paragraph 2.17b accordingly. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.

Consideration of Specific Nonaudit Services

3.85 By their nature, certain nonaudit services directly support an entity's operations and, if provided to an audited entity, create a threat to the auditors' ability to maintain independence in mind and appearance. Some aspects of these services will impair auditors' ability to conduct GAGAS engagements for the entities to which the services are provided.

3.86 Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.87 through 3.106 without impairing independence if (1) the nonaudit services are not expressly prohibited by GAGAS requirements, (2) the auditors have determined that the requirements for providing nonaudit services in paragraphs 3.73 through 3.78 and paragraph 3.83 have been met, and (3) any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards. The conceptual framework enables auditors to evaluate independence given the facts and circumstances of individual services that are not specifically prohibited.

Requirements: Preparing Accounting Records and Financial Statements

3.87 Auditors should conclude that the following services involving preparation of accounting records impair independence with respect to an audited entity:

- a. determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval;
- b. authorizing or approving the entity's transactions; and
- c. preparing or making changes to source documents without management approval.

3.88 Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence, and should document the threats and safeguards

applied to eliminate and reduce threats to an acceptable level in accordance with paragraph 3.33 or decline to provide the services.²²

3.89 Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include

- a. recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger;
- b. preparing certain line items or sections of the financial statements based on information in the trial balance;
- c. posting entries that an audited entity's management has approved to the entity's trial balance; and
- d. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation.

3.90 Auditors should evaluate the significance of threats to independence created by providing any services discussed in paragraph 3.89 and should document the evaluation of the significance of such threats.²³

Application Guidance: Preparing Accounting Records and Financial Statements

3.91 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, even if the auditor assisted in drafting those financial statements. Consequently, an auditor accepting responsibility for the preparation and fair presentation of financial statements that the auditor will subsequently audit or that will otherwise be the subject matter of an engagement would impair the auditor's independence.

²²See fig. 2 at the end of ch. 3 for a flowchart on independence considerations for preparing accounting records and financial statements.

²³See para. 3.33 for additional requirements related to documenting threats identified and safeguards applied to eliminate or reduce threats to an acceptable level.

3.92 Source documents include those providing evidence that transactions have occurred (for example, purchase orders, payroll time records, customer orders, and contracts). Such records also include an audited entity's general ledger and subsidiary records or equivalent.

3.93 Determining whether services, as discussed in paragraph 3.89, are significant threats and require safeguards is a matter of professional judgment.

3.94 Factors that are relevant in evaluating the significance of any threats created by providing services as discussed in paragraph 3.89 include

- a. the extent to which the outcome of the service could have a material effect on the financial statements,
- b. the degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements, and
- c. the extent of the audited entity's involvement in determining significant matters of judgment.

3.95 Providing clerical assistance, such as typing, formatting, printing, and binding financial statements, is unlikely to be a significant threat.

Requirement: Internal Audit Assistance Services Provided by External Auditors

3.96 Internal audit assistance services involve assisting an entity in performing its internal audit activities. Auditors should conclude that the following internal audit assistance activities impair an external auditor's independence with respect to an audited entity:

- a. setting internal audit policies or the strategic direction of internal audit activities;
- b. performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges; and
- c. determining the scope of the internal audit function and resulting work.

Requirements: Internal Control Evaluation as a Nonaudit Service

3.97 Auditors should conclude that providing or supervising ongoing monitoring procedures over an entity's system of internal control impairs independence because the management participation threat created is so significant that no safeguards could reduce the threat to an acceptable level.

3.98 Separate evaluations are sometimes provided as a nonaudit service. When providing separate evaluations as nonaudit services, auditors should evaluate the significance of the threat created by performing separate evaluations and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

Application Guidance: Internal Control Evaluation as a Nonaudit Service

3.99 Accepting responsibility for designing, implementing, or maintaining internal control includes accepting responsibility for designing, implementing, or maintaining monitoring procedures. Monitoring involves the use of either ongoing monitoring procedures or separate evaluations to gather and analyze persuasive information supporting conclusions about the effectiveness of the internal control system. Ongoing monitoring procedures performed on behalf of management are built into the routine, recurring operating activities of an entity.

3.100 Factors relevant to evaluating the significance of any threats created by providing separate evaluations as a nonaudit service include

- a. the frequency of the separate evaluations and
- b. the scope or extent of the controls (in relation to the scope of the engagement conducted) being evaluated.

3.101 A separate evaluation provided as a nonaudit service is not a substitute for engagement procedures in a GAGAS engagement.

Requirement: Information Technology Services

3.102 Auditors should conclude that providing information technology (IT) services to an audited entity that relate to the period under audit impairs independence if those services include

- a. designing or developing an audited entity's financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement;
- b. making other than insignificant modifications to source code underlying an audited entity's existing financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement;
- c. supervising audited entity personnel in the daily operation of an audited entity's information system; or
- d. operating an audited entity's network, financial information system, or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement.

Application Guidance: Information Technology Services

3.103 Services related to IT systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over the subject matter of the engagement, or generate information that affects the subject matter of the engagement.

Requirement: Appraisal, Valuation, and Actuarial Services

3.104 Auditors should conclude that independence is impaired if an audit organization provides appraisal, valuation, or actuarial services to an audited entity when (1) the services involve a significant degree of subjectivity and (2) the results of the service, individually or when combined with other valuation, appraisal, or actuarial services, are material to the audited entity's financial statements or other information

on which the audit organization is reporting.

Application Guidance: Appraisal, Valuation, and Actuarial Services

3.105 A valuation comprises the making of assumptions with regard to future developments; the application of appropriate methodologies and techniques; and the combination of both to compute a certain value, or range of values, for an asset, a liability, or an entity as a whole.

Requirement: Other Nonaudit Services

3.106 Auditors should conclude that providing certain other nonaudit services impairs an external auditor's independence with respect to an audited entity. These activities include the following:

- a. Advisory service
 - (1) Assuming any management responsibilities
- b. Benefit plan administration
 - (1) Making policy decisions on behalf of management
 - (2) Interpreting the provisions in a plan document for a plan participant on behalf of management without first obtaining management's concurrence
 - (3) Making disbursements on behalf of the plan
 - (4) Having custody of the plan's assets
 - (5) Serving in a fiduciary capacity, as defined under the Employee Retirement Income Security Act of 1974²⁴
- c. Business risk consulting
 - (1) Making or approving business risk decisions
 - (2) Presenting business risk considerations to those charged with governance on behalf of management
- d. Executive or employee recruiting
 - (1) Committing the audited entity to employee compensation or benefit arrangements
 - (2) Hiring or terminating the audited entity's employees

²⁴See Section 2510.3-21 of Title 29, *Code of Federal Regulations*.

e. Investment advisory or management

- (1) Making investment decisions on behalf of management or otherwise having discretionary authority over an audited entity's investments
- (2) Executing a transaction to buy or sell an audited entity's investments
- (3) Having custody of an audited entity's assets, such as taking temporary possession of securities

Documentation

Requirement: Documentation

3.107 While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, auditors should prepare appropriate documentation under the GAGAS quality control and assurance requirements.²⁵ The independence standard includes the following documentation requirements, where applicable:

- a. document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence as required by paragraph 3.33;
- b. document the safeguards in paragraphs 3.52 through 3.56 if an audit organization is structurally located within a government entity and is considered structurally independent based on those safeguards;
- c. document consideration of audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor as indicated in paragraph 3.74;

²⁵See para. 5.04 for additional discussion of documenting compliance with quality control policies and procedures and paras. 5.08 through 5.11 for additional discussion of policies and procedures on independence, legal, and ethical requirements.

- d. document the auditor's understanding with an audited entity for which the auditor will provide a nonaudit service as indicated in paragraph 3.77; and
- e. document the evaluation of the significance of the threats created by providing any of the services discussed in paragraph 3.89.

Application Guidance: Documentation

3.108 Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements.

Professional Judgment

Requirement: Professional Judgment

3.109 Auditors must use professional judgment in planning and conducting the engagement and in reporting the results.

Application Guidance: Professional Judgment

3.110 Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Attributes of professional skepticism include a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Professional skepticism includes being alert to, for example, evidence that contradicts other evidence obtained or information that brings into question the reliability of documents or responses to inquiries to be used as evidence. Further, it includes a mindset in which auditors assume that management is neither dishonest nor of unquestioned honesty. Auditors may accept records and documents as genuine unless they have reason to believe the contrary. Auditors may consider documenting procedures undertaken to support their application of professional skepticism in highly judgmental or subjective areas under audit.

3.111 Using the auditor's professional knowledge, skills, and abilities, in good faith and with integrity, to diligently gather information and objectively evaluate the sufficiency and appropriateness of evidence is a critical component of GAGAS engagements. Professional judgment and competence are interrelated because judgments made depend upon the auditor's competence, as discussed in chapter 4.

3.112 Professional judgment represents the application of the collective knowledge, skills, and abilities of all the personnel involved with an engagement, as well as the professional judgment of individual auditors. In addition, professional judgment may involve consultation with other stakeholders, specialists, and management in the audit organization.

3.113 Using professional judgment is important to auditors in carrying out all aspects of their professional responsibilities, including following the independence standards and related conceptual framework; maintaining objectivity and credibility; assigning competent personnel to the engagement; defining the scope of work; evaluating, documenting, and reporting the results of the work; and maintaining appropriate quality control over the engagement process.

3.114 Using professional judgment is important to auditors in applying the conceptual framework to determine independence in a given situation. This includes identifying and evaluating any threats to independence, including threats to the appearance of independence, and related safeguards that may mitigate the identified threats.²⁶

3.115 Using professional judgment is important to auditors in determining the necessary level of understanding of the engagement subject matter and related circumstances. This includes considering whether the audit team's collective experience, training, knowledge, skills, abilities, and overall understanding are sufficient to assess the risks that the subject matter of the engagement may contain a significant inaccuracy or could be misinterpreted.²⁷

3.116 An auditor's consideration of the risk level of each engagement, including the risk of arriving at improper conclusions, is also important. Within the context of audit risk, exercising professional judgment in

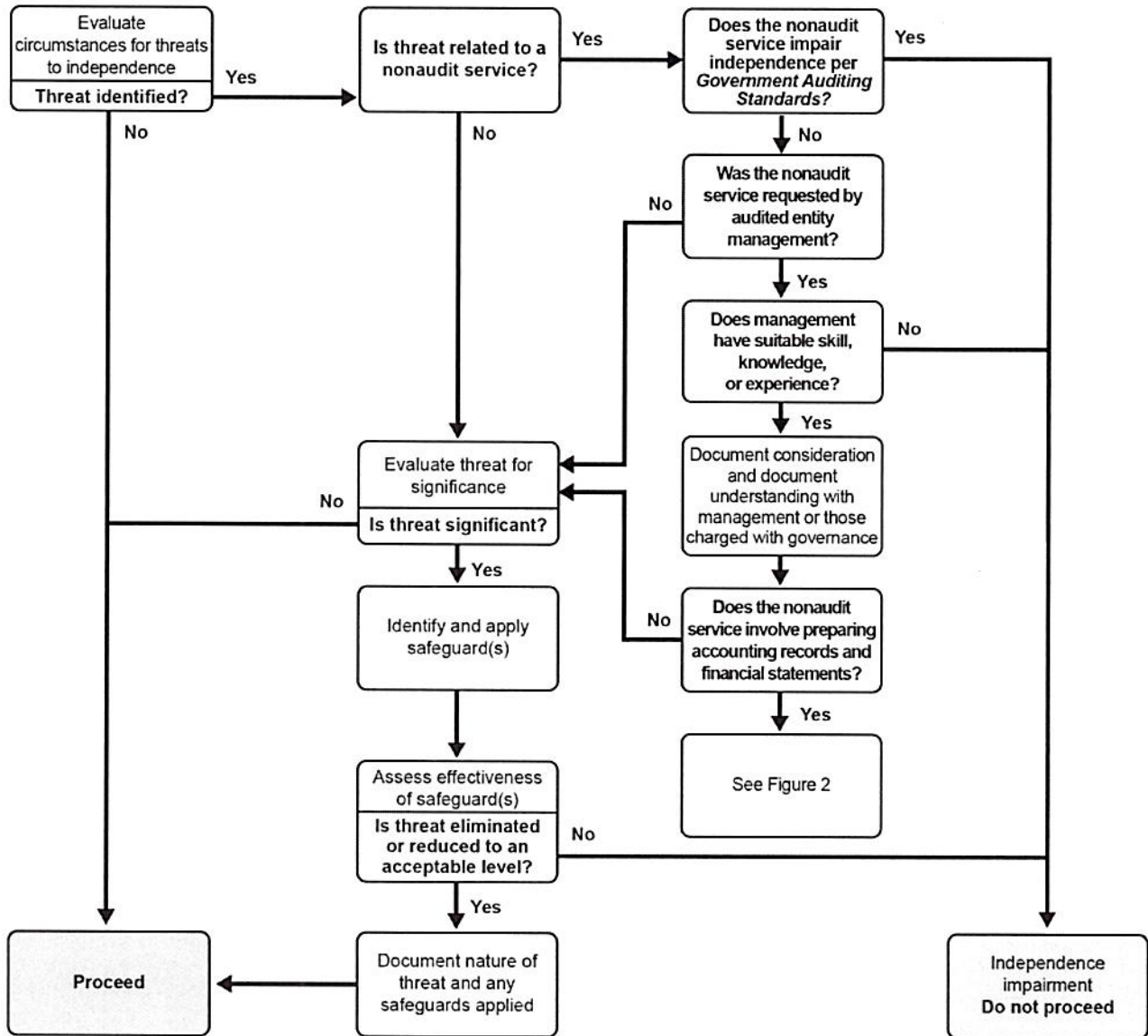
²⁶See para. 3.21b for a description of independence in appearance.

²⁷See paras. 4.02 through 4.15 for a discussion of competence.

determining the sufficiency and appropriateness of evidence to be used to support the findings and conclusions based on the engagement objectives and any recommendations reported is integral to the engagement process.

3.117 While this requirement places responsibility on each auditor and audit organization to exercise professional judgment in planning and conducting an engagement, it does not imply unlimited responsibility nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable because of factors such as the nature of evidence and characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific engagement, but rather identifying, assessing, mitigating, and concluding on them.

Figure 1: Generally Accepted Government Auditing Standards Conceptual Framework for Independence



Source: GAO | GAO-21-388G

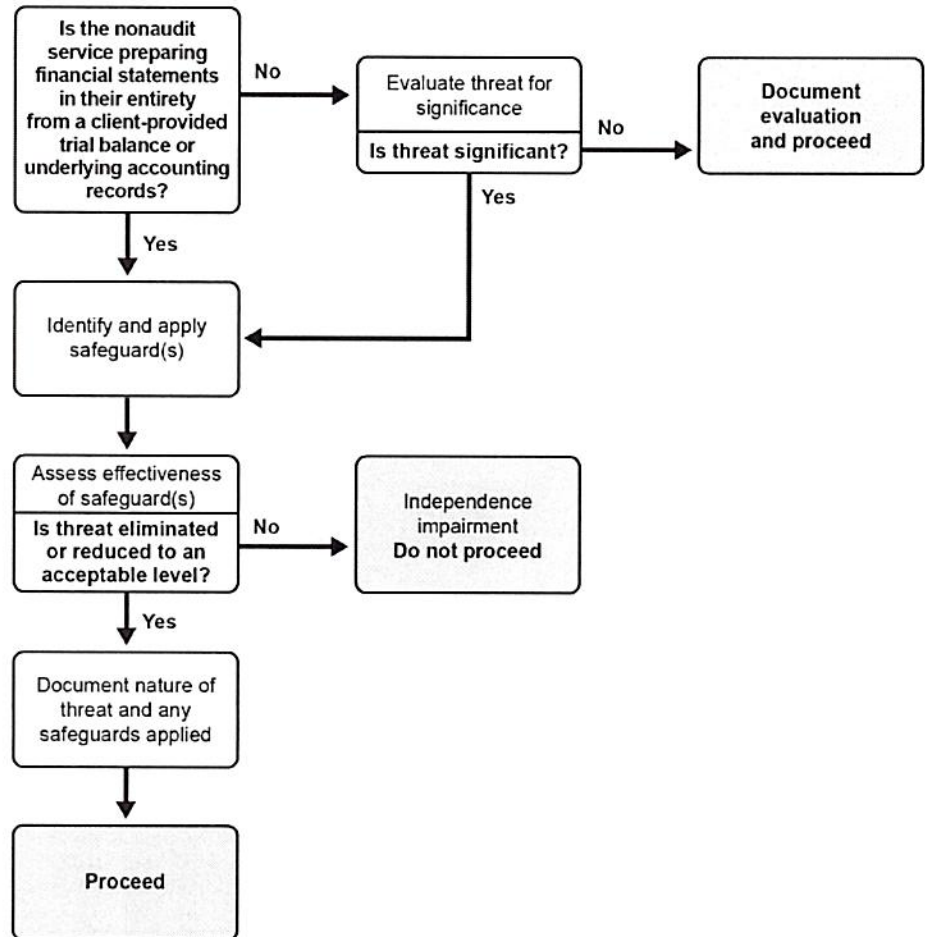
Text of Figure 1: Generally Accepted Government Auditing Standards Conceptual Framework for Independence

Steps for evaluating Generally Accepted Government Auditing Standards Conceptual Framework for Independence

- 1) Evaluate circumstances for threats to independence.
Threat identified?
 - a) No – **Proceed.**
 - b) Yes – Go to step 2.
- 2) Is threat related to a nonaudit service?
 - a) No – Evaluate threat for significance
Is threat significant?
 - i) No – go to 1a, **Proceed.**
 - ii) Yes – Identify and apply safeguard(s)
 - (1) Assess effectiveness of safeguard(s)
Is threat eliminated or reduced to an acceptable level?
 - (a) No – go to step 3a **Independence impairment. Do Not Proceed.**
 - (b) Yes – Document nature of threat and any safeguards applied. Go to 1a, **Proceed.**
 - b) Yes – Go to step 3.
- 3) Does the nonaudit service impair independence per Government Auditing Standards?
 - a) Yes – **Independence impairment. Do not proceed.**
 - b) No – Was the nonaudit service requested by audited entity management?
 - i) No – go to step 2a, Evaluate threat for significance. Is the threat significant?
 - ii) Yes – Does management have suitable skills, knowledge and experience?
 - (1) No – go to step 3a **Independence impairment. Do Not Proceed.**

- (2) Yes – Document consideration and document understanding with management or those charged with governance.
 - (a) Does the audit service involve preparing accounting records and financial statements?
 - (i) No - go to step 2a, Evaluate threat for significance. Is the threat significant?
 - (ii) Yes – See figure 2.

Figure 2: Independence Considerations for Preparing Accounting Records and Financial Statements



Source: GAO | GAO-21-368G

Text of Figure 2: Independence Considerations for Preparing Accounting Records and Financial Statements

Steps for evaluating Independence Considerations for Preparing Accounting Records and Financial Statements

- 1) Is the nonaudit service preparing financial statements in their entirety from a client-provided trail balance or underlying accounting records?
 - a) No – Evaluate threat for significance. Is threat significant?

- i) Yes, proceed to item 2 (Identify and apply safeguard(s))
 - ii) No, **Document evaluation and proceed**
- 2) Yes, Identify and apply safeguard(s)
 - 3) Assess effectiveness of safeguard(s). Is threat eliminated or reduced to an acceptable level?
 - a) No – **Independence Impairment. Do Not Proceed.**
 - 4) Yes – Document nature of threat and any safeguards applied.
 - 5) **Proceed.**

Chapter 4: Competence and Continuing Professional Education

4.01 This chapter establishes the generally accepted government auditing standards (GAGAS) requirements for competence and continuing professional education (CPE). Competence includes being knowledgeable about the specific GAGAS requirements and having the skills and abilities to proficiently apply that knowledge on GAGAS engagements. CPE contributes to auditors' competence. The requirements of this chapter are intended to be followed in conjunction with all other applicable GAGAS requirements.

Competence

Requirements: General

4.02 The audit organization's management must assign auditors to conduct the engagement who before beginning work on the engagement collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.

4.03 The audit organization's management must assign auditors who before beginning work on the engagement possess the competence needed for their assigned roles.

4.04 The audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. The nature, extent, and formality of the process will depend on various factors, such as the size of the audit organization, its structure, and its work.

Application Guidance: General

4.05 Competence is the knowledge, skills, and abilities, obtained from education and experience, necessary to conduct the GAGAS engagement. Competence enables auditors to make sound professional judgments. Competence includes possessing the technical knowledge and skills necessary for the assigned role and the type of work being done. This includes possessing specific knowledge about GAGAS.

4.06 Competence is derived from a combination of education and experience. Education is a structured and systematic process aimed at developing knowledge, skills, and other abilities; it is a process that is typically but not exclusively conducted in academic or learning environments. Experience refers to workplace activities that are relevant to developing professional proficiency. Competence is not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by auditors in any given time period. Maintaining competence through a commitment to learning and development throughout auditors' professional lives is an important element for auditors.

Application Guidance: Indicators of Competence

Technical Knowledge and Skills

4.07 The knowledge, skills, and abilities needed when conducting an engagement in accordance with GAGAS include the understanding necessary to proficiently apply

- a. GAGAS;
- b. standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the engagement(s) being conducted; and
- c. techniques, tools, and guidance related to professional expertise applicable to the work being performed.

Auditor proficiency in these areas helps ensure that engagements are conducted in accordance with GAGAS.

4.08 Achieving the knowledge, skills, and abilities needed to conduct a GAGAS engagement may include

- a. having prior experience in the subject matter or type of engagement;
- b. completing CPE related to the subject matter or type of engagement; and
- c. obtaining degrees or certifications relevant to the subject matter or type of engagement.

Competence for Assigned Roles

4.09 The audit organization and engagement teams may consider the levels of proficiency needed for each role on the engagement when assigning auditors to the engagement.

4.10 Roles on the engagement generally include the following:

- a. Nonsupervisory auditors: Auditors in these roles plan or perform engagement procedures. Work situations for these auditors are characterized by low levels of ambiguity, complexity, and uncertainty. The nonsupervisory auditor role necessitates at least a basic level of proficiency.
- b. Supervisory auditors: Auditors in these roles plan engagements, perform engagement procedures, or direct engagements. Work situations for these auditors are characterized by moderate levels of ambiguity, complexity, and uncertainty. The supervisory auditor role necessitates at least an intermediate level of proficiency.
- c. Partners and directors: Auditors in these roles plan engagements, perform engagement procedures, or direct or report on engagements. Partners and directors may also be responsible for reviewing engagement quality prior to issuing the report, for signing the report, or both. Work situations for these auditors are characterized by high levels of ambiguity, complexity, and uncertainty. The partner and director role necessitates an advanced level of proficiency.

4.11 Definitions of key terms follow:

- a. Planning: Determining engagement objectives, scope, and methodology; establishing criteria to evaluate matters subject to audit; or coordinating the work of the other audit organizations.

This definition excludes auditors whose role is limited to gathering information used in planning the engagement.

- b. Directing: Supervising the efforts of others who are involved in accomplishing the objectives of the engagement or reviewing engagement work to determine whether those objectives have been accomplished.
- c. Performing engagement procedures: Performing tests and procedures necessary to accomplish the engagement objectives in accordance with GAGAS.
- d. Reporting: Determining the report content and substance or reviewing reports to determine whether the engagement objectives have been accomplished and the evidence supports the report's technical content and substance prior to issuance. This includes signing the report.

Requirement: Specialists

4.12 The engagement team should determine that specialists assisting the engagement team on a GAGAS engagement are qualified and competent in their areas of specialization.

Application Guidance: Specialists

4.13 Some engagements may necessitate the use of specialized techniques or methods that call for the skills of specialists. Specialists do not include individuals with special skill or knowledge related to specialized areas within the field of accounting or auditing, such as income taxation and information technology. Such individuals are considered auditors.

4.14 The competence and qualifications of specialists significantly affect whether their work will be adequate for the engagement team's purposes and will meet GAGAS requirements. Competence of specialists relates to the nature and level of expertise. Qualifications of specialists relate to their professional certifications, reputations, and previous work in the subject matter. Other relevant factors include the ability of specialists to exercise competence in the circumstances of the engagement and the effects that bias, conflict of interest, or the influence of others may have on the specialists' professional judgment.

4.15 Sources that may inform the auditors' assessment of the competence and professional qualifications of a specialist include 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;
- d. the auditors' assessment of the specialist's knowledge and qualification based on prior experience in using the specialist's work;
- e. the specialist's knowledge of any technical performance standards or other professional or industry requirements in the specialist's field (for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation);
- f. the knowledge of the specialist with respect to relevant auditing standards; and
- g. the assessment of unexpected events, changes in conditions, or the evidence obtained from the results of engagement procedures that indicate it may be necessary to reconsider the initial evaluation of the competence and qualifications of a specialist as the engagement progresses.

Continuing Professional Education

Requirements: General

4.16 Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should develop and maintain their professional competence by completing at least 80 hours of CPE in every 2-year period as follows.

CPE hours	Subject matter categories of CPE
24 hours	Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates
56 hours	Subject matter that directly enhance auditors' professional expertise to conduct engagements

4.17 Auditors should complete at least 20 hours of CPE in each year of the 2-year periods.

4.18 The audit organization should maintain documentation of each auditor's CPE.²⁸

Application Guidance: General

4.19 The continuing competence of the audit organization's personnel depends, in part, on an appropriate level of CPE so that auditors maintain the knowledge, skills, and abilities necessary to conduct the GAGAS engagement. Obtaining CPE specifically on GAGAS, particularly during years in which there are revisions to the standards, may assist auditors in maintaining the competence necessary to conduct GAGAS engagements.

4.20 CPE used to fulfill the 24-hour requirement may be taken at any time during the 2-year measurement period.

²⁸See paras. 4.51 and 5.16 for a discussion of CPE documentation.

Application Guidance: Subject Matter Categories of CPE

4.21 Determining what subjects are appropriate for individual auditors to satisfy the CPE requirements is a matter of professional judgment to be exercised by auditors in consultation with appropriate officials in their audit organization. When determining what specific subjects qualify for the CPE requirement, the auditors may consider the types of knowledge, skills, and abilities, and the level of proficiency necessary, in order to be competent for their assigned roles. Auditors may consider probable future engagements to which they may be assigned when selecting specific CPE subjects to satisfy the 24-hour and the 56-hour CPE requirements. The audit organization is ultimately responsible for determining whether a subject or topic qualifies as acceptable for its auditors.

4.22 The subject matter categories for the 24-hour requirement may be used to satisfy the 56-hour CPE requirement. If CPE in any of the subject matter and topics that would satisfy the 56-hour requirement, as discussed in paragraph 4.24, is tailored specifically to the government environment, such CPE may qualify toward satisfying the 24-hour requirement. Examples of CPE subjects that may qualify for each of the categories are listed below.

Subject Matter Directly Related to the Government Environment, Government Auditing, or the Specific or Unique Environment in Which the Audited Entity Operates (24-Hour Requirement)

4.23 Subject matter directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates may include, but is not limited to, the following:

- a. generally accepted government auditing standards (GAGAS) and related topics, such as internal control as addressed in GAGAS;
- b. the applicable American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards;²⁹
- c. the applicable AICPA Statements on Standards for Attestation Engagements and Statements on Standards for Accounting and Review Services;³⁰

²⁹See para. 6.01 for a discussion of the AICPA standards incorporated into GAGAS for financial audits.

- d. the applicable auditing standards issued by the Institute of Internal Auditors, the Public Company Accounting and Oversight Board, the International Auditing and Assurance Standards Board, or other auditing standard-setting body;
- e. U.S. generally accepted accounting principles, or the applicable financial reporting framework being used, such as those issued by the Federal Accounting Standards Advisory Board, the Governmental Accounting Standards Board, or the Financial Accounting Standards Board;
- f. *Standards for Internal Control in the Federal Government*;³¹
- g. *Internal Control—Integrated Framework*,³² as applicable;
- h. requirements for recipients of federal contracts or grants, such as Single Audits under the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*;³³
- i. requirements for federal, state, or local program audits;
- j. relevant or applicable audit standards or guides, including those for information technology auditing and forensic auditing;
- k. information technology auditing topics applicable to the government environment;
- l. fraud topics applicable to a government environment;
- m. statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the specific and unique environment in which the audited entity operates;

³⁰See para. 7.01 for a discussion of the AICPA standards incorporated into GAGAS for attestation engagements and reviews of financial statements.

³¹GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

³²Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control—Integrated Framework* (New York: American Institute of Certified Public Accountants, 2013).

³³See Part 200, Subpart F, of Title 2, *Code of Federal Regulations*.

- n. statutory requirements, regulations, criteria, guidance, trends, risks, or topics relevant to the subject matter of the engagement, such as scientific, medical, environmental, educational, or any other specialized subject matter;
- o. topics directly related to the government environment, such as the nature of government (structures, financing, and operations), economic or other conditions and pressures facing governments, common government financial management issues, appropriations, measurement or evaluation of government financial or program performance, and application of general audit methodologies or techniques to a government environment or program;
- p. specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial estimates, statistical analysis tests, or statistical or nonstatistical sampling;
- q. performance auditing topics, such as obtaining evidence, professional skepticism, and other applicable audit skills;³⁴
- r. government ethics and independence;
- s. partnerships between governments, businesses, and citizens;
- t. legislative policies and procedures;
- u. topics related to fraud, waste, abuse, or improper payments affecting government entities; and
- v. compliance with laws and regulations.

Subject Matter That Directly Enhances Auditors' Professional Expertise to Conduct Engagements (56-Hour Requirement)

4.24 Subject matter that directly enhances auditors' professional expertise to conduct engagements may include, but is not limited to, the following:

³⁴See chs. 8 and 9 for performance audit topics that may be included.

- a. subject matter categories for the 24-hour requirement listed in paragraph 4.23;
- b. general ethics and independence;
- c. topics related to accounting, acquisitions management, asset management, budgeting, cash management, contracting, data analysis, program performance, or procurement;
- d. communicating clearly and effectively, both orally and in writing;
- e. managing time and resources;
- f. leadership;
- g. software applications used in conducting engagements;
- h. information technology; and
- i. economics, human capital management, social and political sciences, and other academic disciplines that may be applied in engagements, as applicable.

Application Guidance: Exemptions and Exceptions

4.25 Auditors may be exempted from the 56-hour CPE requirement by the audit organization, but not the 24-hour requirement, if they

- a. charge less than 20 percent of their time annually to engagements conducted in accordance with GAGAS and
- b. are only involved in performing engagement procedures, but not involved in planning, directing, or reporting on the engagement.

The 20 percent may be based on historical or estimated charges in a year, provided that the audit organization has a basis for this determination and monitors actual time. For auditors who change status such that they are charging more than 20 percent of their time annually to engagements under GAGAS, the audit organization may prorate the required CPE hours similar to when auditors are assigned to GAGAS engagements after the beginning of a 2-year CPE measurement period, as discussed in paragraph 4.42.

4.26 Nonsupervisory auditors who charge less than 40 hours of their time annually to engagements conducted in accordance with GAGAS may be exempted by the organization from all CPE requirements in paragraph 4.16.

4.27 The audit organization may exempt from the CPE requirements college and university students employed on a temporary basis for a limited period of time (for example, an internship of limited duration) or enrolled in a formal program sponsored by the college or university for a specific period of employment, such as a term or semester.

4.28 Employees or contract employees performing support services within the audit organization, such as individuals who are assigned to positions in budgeting, human resources, training, and administrative functions, and who do not conduct engagement activities are not auditors subject to the GAGAS CPE requirements. Employees or contract employees who assist in the engagement by performing support services, such as performing background research, data entry, writing and editing assistance, proofreading, or report production and distribution are not auditors subject to the GAGAS CPE requirements.

4.29 The audit organization, at its discretion, may grant exemptions from a portion of the CPE requirement in the event of extended absences or other extenuating circumstances if situations such as the following prevent auditors from fulfilling those requirements and conducting engagements:

- a. ill health,
- b. maternity or paternity leave,
- c. extended family leave,
- d. sabbaticals,
- e. leave without pay absences,
- f. foreign residency,
- g. military service, and
- h. disasters.

The audit organization may not grant exceptions for reasons such as workload, budget, or travel constraints.

Application Guidance: Specialists

4.30 External specialists are not auditors subject to the GAGAS CPE requirements. Also, internal specialists assisting on a GAGAS engagement who are not involved in planning, directing, performing engagement procedures, or reporting on a GAGAS engagement are not auditors subject to the GAGAS CPE requirements.

4.31 Internal specialists who are performing work in accordance with GAGAS as part of the engagement team—including planning, directing, performing engagement procedures, or reporting on a GAGAS engagement—are considered auditors and are subject to the GAGAS CPE requirements. The GAGAS CPE requirements become effective for internal specialists when an audit organization first assigns an internal specialist to an engagement. Because internal specialists apply specialized knowledge in government engagements, CPE in their areas of specialization qualifies under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates.

Application Guidance: Programs and Activities That Qualify for CPE

4.32 CPE programs are structured educational activities or programs with learning objectives designed to maintain or enhance the auditors' competence to address engagement objectives and perform work in accordance with GAGAS.

4.33 The following are examples of structured educational programs and activities:

- a. internal training programs (e.g., courses, seminars, and workshops);
- b. education and development programs presented at conferences, conventions, meetings, and seminars and meetings or workshops of professional organizations;
- c. training programs presented by other audit organizations, educational organizations, foundations, and associations;

- d. web-based seminars and individual-study or eLearning programs;
- e. audio conferences;
- f. accredited university and college courses (credit and noncredit);
- g. standard-setting organization, professional organization, or audit organization staff meetings when a structured educational program with learning objectives is presented (e.g., the portion of the meeting that is a structured educational program with learning objectives designed to maintain or enhance auditors' competence);
- h. correspondence courses, individual-study guides, and workbooks;
- i. serving as a speaker, panelist, instructor, or discussion leader at programs that qualify for CPE hours;
- j. developing or technical review of courses or the course materials for programs that qualify for CPE hours; and
- k. publishing articles and books that contribute directly to the author's professional proficiency to conduct engagements.

4.34 Individual auditors who are members of professional organizations or who are licensed professionals, such as certified public accountants, are cautioned that the GAGAS CPE requirements, while similar in many respects to those of professional organizations and of licensing bodies, may not be identical. Some subjects and topics may be acceptable to state licensing bodies or professional organizations, but may not qualify as CPE under GAGAS. Conversely, some CPE that qualifies for GAGAS may not qualify for state licensing bodies or professional organizations. Careful consideration of auditors' relevant professional organizations or licensing body requirements is encouraged to meet other relevant CPE requirements.

4.35 Examples of training topics that may qualify as CPE for state licensing bodies or professional organizations but would not generally qualify as CPE for purposes of satisfying requirements under GAGAS include certain training in taxation, personal financial planning and investment, taxation strategies, estate planning, retirement planning, and practice management, unless such training directly enhances the auditors' professional proficiency to perform engagements or relate to the

subject matter of an engagement. However, if certain taxation or other topics relate to an objective or the subject matter of an engagement, training in those related topics could qualify as CPE under GAGAS.

4.36 Examples of programs and activities that do not qualify for CPE hours under GAGAS include, but are not limited to, the following:

- a. on-the-job training;
- b. basic or elementary courses in subjects or topics in which auditors already have the knowledge and skills being taught;
- c. programs that are designed for general personal development, such as résumé writing, improving parent-child relations, personal investments and money management, and retirement planning;
- d. programs that demonstrate office equipment or software that is not used in conducting engagements;
- e. programs that provide training on the audit organization's administrative operations;
- f. business sessions at professional organization conferences, conventions, and meetings that do not have a structured educational program with learning objectives;
- g. conducting external quality control reviews; and
- h. sitting for professional certification examinations.

Basic or elementary courses would be acceptable in cases where they are deemed necessary as “refresher” courses to enhance the auditors’ proficiency to conduct audits and attestation engagements.

Application Guidance: Measurement of CPE

4.37 A CPE hour may be granted for each 50 minutes of participation in programs and activities that qualify.

4.38 For university or college credit courses, each unit of college credit under a semester system equals 15 CPE hours, and each unit of college credit under a quarter system equals 10 CPE hours. For university or

college noncredit courses, CPE hours may be granted only for the actual classroom time.

4.39 For individual-study programs where successful completion is measured by a summary examination, CPE credit may be granted if auditors complete the examination with a passing grade. Auditors in other individual-study programs may earn CPE hours when they satisfactorily complete the requirements of the self-study program. The number of hours granted may be based on the CPE provider's recommended number of CPE hours for the program.

4.40 Speakers, instructors, and discussion leaders at programs that qualify for CPE and auditors who develop or write the course materials may receive CPE hours for preparation and presentation time to the extent the subject matter contributes to auditors' competence. One CPE hour may be granted for each 50 minutes of presentation time. Up to 2 CPE hours may be granted for developing, writing, or advance preparation for each 50 minutes of the presentation. Auditors may not receive CPE hours for either preparation or presentation time for repeated presentations that they make within the 2-year period, unless the subject matter involved was changed significantly for each presentation. The maximum number of CPE hours that may be granted to an auditor as a speaker, instructor, discussion leader, or preparer of course materials may not exceed 40 hours for any 2-year period.

4.41 Articles, books, or materials written by auditors and published on subjects and topics that contribute directly to professional proficiency to conduct engagements qualify for CPE hours in the year they are published. One CPE hour may be granted for each hour devoted to writing articles, books, or materials that are published. However, CPE hours for published writings may not exceed 20 hours for any 2-year period.

4.42 Auditors hired or assigned to a GAGAS engagement after the beginning of an audit organization's 2-year CPE period may complete a prorated number of CPE hours. An audit organization may define a prorated number of hours based on the number of full 6-month intervals remaining in the CPE period. For example, an audit organization has a 2-year CPE period running from January 1, 2020, through December 31, 2021. The audit organization assigns a new auditor to a GAGAS engagement in May 2020. The audit organization may calculate the prorated CPE requirement for the auditor as follows:

- a. Number of full 6-month intervals remaining in the CPE period: 3
- b. Number of 6-month intervals in the full 2-year period: 4
- c. Newly assigned auditor's CPE requirement: $\frac{3}{4} \times 80$ hours = 60 hours

When auditors are newly hired or newly assigned to GAGAS engagements and have had some previous CPE, the audit organization has flexibility and may choose between using a pro rata approach or evaluating whether and to what extent any CPE already taken in that period would satisfy GAGAS CPE requirements.

4.43 For newly assigned auditors who are subject to the 24-hour requirement, the number of prorated hours may be calculated in a similar manner: $\frac{3}{4} \times 24$ hours = 18 hours, in this example. The prorated amount of hours would be the total requirement over the partial period. The 20-hour minimum for each CPE year would not apply when the prorated number of hours is being used to cover a partial 2-year CPE period.

4.44 At their discretion, audit organizations may give auditors who have not completed the 80-hour CPE requirement for any 2-year period up to 2 months immediately following the 2-year period to make up the deficiency. Audit organizations may also give auditors who have not completed the 20 hours of CPE in a 1-year period up to 2 months immediately following the 1-year period to make up the deficiency. Any CPE hours completed toward a deficiency in one period may be documented in the CPE records and may not be counted toward the requirements for the next period. Audit organizations that grant the 2-month grace period may not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements until those requirements are satisfied.

4.45 Auditors may not carry over CPE hours earned in excess of the 80-hour and 24-hour requirements from one 2-year CPE measurement period to the next.

4.46 If an audit organization discontinues conducting GAGAS engagements or reassigns auditors to non-GAGAS assignments before auditors complete the CPE requirements, the auditors are not required to complete the number of hours to satisfy the CPE requirements. However, the audit organization may wish to have its auditors complete those

requirements if it is foreseeable that the auditors will conduct GAGAS engagements in the future.

4.47 Auditors who complete a professional certification review course may receive CPE hours only for those segments of the review course that are relevant to the standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or to the engagement objectives being performed, or for subject matter that directly enhances auditors' professional expertise to conduct engagements.

4.48 To simplify administration of the CPE requirements, an audit organization may establish a standard 2-year period for all of its auditors, which can be on either a fixed-year or rolling-year basis. A fixed-year measurement period, for example, would be the 2-year periods 2019 through 2020, 2021 through 2022, and so forth, while a rolling-year measurement period would be 2019 through 2020, 2020 through 2021, 2021 through 2022, and so forth.

4.49 An audit organization may use a measurement date other than the date it started its first GAGAS engagement, or the audit organization may choose to change its measurement date to coincide with a fiscal year or another reporting requirement, such as one established by a state licensing body or professional organization. For example, if an audit organization changes the end date of the measurement period from December 31 to June 30, during the audit organization's transition period (January 1 to June 30), its auditors may complete at least a prorated number of CPE hours for the 6-month transition period. The number of prorated hours required may be calculated using the method illustrated in paragraphs 4.42 and 4.43.

Application Guidance: Monitoring CPE

4.50 The audit organization's policies and procedures for CPE may address the following:

- a. identifying all auditors required to meet the CPE requirements;
- b. providing auditors with the opportunity to attend internal CPE programs, external CPE programs, or both;
- c. assisting auditors in determining which programs, activities, and subjects qualify for CPE;

- d. documenting the number of CPE hours completed by each auditor; and
- e. monitoring auditor compliance with the CPE requirements to ensure that auditors complete sufficient CPE in qualifying programs and subjects.

4.51 Policies and procedures for documentation may address maintaining documentation of the CPE hours completed by each auditor subject to the CPE requirements for an appropriate period of time to satisfy any legal and administrative requirements, including peer review. The audit organization may maintain documentation of CPE or may delegate the responsibility to the auditor and put in place adequate procedures to ensure that its records of CPE hours earned by auditors are supported by the documentation maintained by auditors. Documentation may include the following information:

- a. the name of the organization providing the CPE;
- b. the title of the training program, including the subject matter or field of study;
- c. the dates attended for group programs or dates completed for individual study programs;
- d. the number of CPE hours earned toward the 56-hour and 24-hour requirements;
- e. any reasons for specific exceptions granted to the CPE requirement; and
- f. evidence of completion of CPE, such as a certificate or other evidence of completion from the CPE provider for group and individual-study programs, if provided; documentation of CPE courses presented or copies of course materials developed by or for speakers, instructors, or discussion leaders, along with a written statement supporting the number of CPE hours claimed; or a copy of the published book, article, or other material that name the writer as author or contributor, or a written statement from the writer supporting the number of CPE hours claimed.

4.52 The audit organization may monitor CPE compliance through its internal inspections or other quality assurance monitoring activities.

4.53 The audit organization is not required to prepare reports on CPE. However, the audit organization may consider preparing a periodic CPE report for distribution to the auditors or maintaining or accessing training data online to monitor its auditors' progress toward meeting the CPE requirements.

Chapter 5: Quality Control and Peer Review

5.01 This chapter establishes the generally accepted government auditing standards (GAGAS) requirements and guidance for quality control and assurance, and for administering, planning, performing, and reporting on peer reviews of audit organizations that conduct engagements in accordance with GAGAS. The requirements of this chapter are intended to be followed in conjunction with those of all other applicable GAGAS requirements.

Quality Control and Assurance

Requirement: Quality Control and Assurance

5.02 An audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.

Application Guidance: Quality Control and Assurance

5.03 An audit organization's system of quality control encompasses the organization's leadership, emphasis on performing high-quality work, and policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its engagement work, and cost-benefit considerations.

System of Quality Control

Requirement: System of Quality Control

5.04 An audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent to which the audit organization complies with its quality control policies and procedures.

Leadership Responsibilities for Quality within the Audit Organization

Requirements: Leadership Responsibilities for Quality within the Audit Organization

5.05 The audit organization should establish policies and procedures on leadership responsibilities for quality within the audit organization that include designating responsibility for quality of engagements conducted in accordance with GAGAS and communicating policies and procedures relating to quality.

5.06 The audit organization should establish policies and procedures designed to provide reasonable assurance that those assigned operational responsibility for the audit organization's system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

Application Guidance: Leadership Responsibilities for Quality within the Audit Organization

5.07 Appropriate policies and communications encourage a culture that recognizes that quality is essential in conducting GAGAS engagements and that audit organization leadership is ultimately responsible for the system of quality control.

Independence, Legal, and Ethical Requirements

Requirements: Independence, Legal, and Ethical Requirements

5.08 The audit organization should establish policies and procedures on independence and legal and ethical requirements that are designed to provide reasonable assurance that the organization and its personnel maintain independence and comply with applicable legal and ethical requirements.³⁵

5.09 At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent.

Application Guidance: Independence, Legal, and Ethical Requirements

5.10 Policies and procedures pertaining to independence and legal and ethical requirements assist the audit organization in

- a. communicating its independence requirements to its personnel and
- b. identifying and evaluating circumstances and relationships that create threats to independence and taking appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, withdrawing from the engagement where withdrawal is not prohibited by law or regulation.

5.11 Written affirmation of compliance with its policies and procedures on independence from all audit organization personnel required to be independent may be in paper or electronic form. By obtaining affirmation of retrospective compliance with the audit organization's policies and procedures on independence during a specified period and taking appropriate action on information indicating noncompliance, or potential noncompliance, the organization demonstrates the importance that it

³⁵See paras. 3.02 through 3.16 for a discussion of ethical principles and paras. 3.18 through 3.108 for independence requirements and guidance.

attaches to independence and keeps the issue current for, and visible to, its personnel. An audit organization may obtain affirmation of required personnel's compliance with policies and procedures on independence more frequently than once per year. For example, affirmation may be obtained on a per-engagement basis when such engagements last less than 1 year.

Initiation, Acceptance, and Continuance of Engagements

Requirement: Initiation, Acceptance, and Continuance of Engagements

5.12 The audit organization should establish policies and procedures for the initiation, acceptance, and continuance of engagements that are designed to provide reasonable assurance that the organization will undertake engagements only if it

- a. complies with professional standards, applicable legal and regulatory requirements, and ethical principles;
- b. acts within its legal mandate or authority; and
- c. has the capabilities, including time and resources, to do so.

Application Guidance: Initiation, Acceptance, and Continuance of Engagements

5.13 Government audit organizations initiate engagements as a result of (1) legal mandates, (2) requests from legislative bodies or oversight bodies, and (3) audit organization discretion. In the case of legal mandates and requests, a government audit organization may be required to conduct the engagement and may not be permitted to make decisions about acceptance or continuance and may not be permitted to resign or withdraw from the engagement.

5.14 Audit organizations may operate with limited resources. Audit organizations may consider their workloads in determining whether they have the resources to deliver the range of work to the desired level of quality. To achieve this, audit organizations may develop systems to prioritize their work in a way that takes into account the need to maintain quality.

Human Resources

Requirements: Human Resources

5.15 The audit organization should establish policies and procedures for human resources that are designed to provide the organization with reasonable assurance that it has personnel with the competence to conduct GAGAS engagements in accordance with professional standards and applicable legal and regulatory requirements.³⁶

5.16 The audit organization should establish policies and procedures to provide reasonable assurance that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed and any exemptions granted.

Application Guidance: Human Resources

5.17 Effective recruitment processes and procedures help the audit organization select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the audit organization's work and possess the appropriate characteristics to enable them to perform competently. Examples of such characteristics include meeting minimum academic requirements established by the audit organization and leadership traits.

5.18 The audit organization may use a suitably qualified external person to conduct engagement work when internal resources, for example, personnel with particular areas of technical expertise, are unavailable.

5.19 Effective performance evaluation, compensation, and advancement procedures give due recognition and reward to developing and maintaining competent personnel. Steps that an audit organization may take in developing and maintaining competent personnel include the following:

- a. making personnel aware of the audit organization's expectations regarding performance and ethical principles;

³⁶Refer to paras. 4.02 through 4.15 for requirements and guidance on competence.

- b. providing personnel with an evaluation of, and counseling on, performance, progress, and career development; and
- c. helping personnel understand that compensation and advancement to positions of greater responsibility depend on, among other things, performance quality, and that failure to comply with the audit organization's policies and procedures may result in disciplinary action.

5.20 The size and circumstances of the audit organization are important considerations in determining the structure of the audit organization's performance evaluation process. A smaller audit organization, in particular, may employ less formal methods of evaluating the performance of its personnel.

5.21 Objectives of the audit organization's human resources policies and procedures may include

- a. promoting learning and training for all personnel to encourage their professional development and to help ensure that personnel are trained in current developments in the profession and
- b. helping ensure that personnel and any parties contracted to carry out work for the audit organization have an appropriate understanding of the environment(s) in which the organization operates and a good understanding of the work they are required to carry out.

Engagement Performance

Requirements: General

5.22 The audit organization should establish policies and procedures for engagement performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that engagements are conducted and reports are issued in accordance with professional standards and applicable legal and regulatory requirements.

5.23 If auditors change the engagement objectives during the engagement, they should document the revised engagement

objectives and the reasons for the changes.

5.24 The audit organization should establish policies and procedures designed to provide it with reasonable assurance that

- a. appropriate consultation takes place on difficult or contentious issues that arise among engagement team members in the course of conducting a GAGAS engagement;
- b. both the individual seeking consultation and the individual consulted document and agree upon the nature and scope of such consultations; and
- c. the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented.

5.25 If an engagement 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 engagement was terminated.

Application Guidance: General

5.26 The audit organization's policies and procedures may address consistency in the quality of engagement performance. This is often accomplished through written or electronic manuals, software tools or other forms of standardized documentation, and industry-specific or subject matter-specific guidance materials. Matters addressed may include the following:

- a. maintaining current policies and procedures;
- b. briefing the engagement team to provide an understanding of the engagement objectives and professional standards;
- c. complying with applicable engagement standards;
- d. planning the engagement, supervision, staff training, and mentoring;

- e. reviewing the work performed, the significant judgments made, and the type of report being issued;
- f. documenting the work performed and the timing and extent of review;
- g. reviewing the independence and qualifications of any specialists and the scope and quality of their work;
- h. resolving difficult or contentious issues or disagreements among team members, including specialists;
- i. obtaining and addressing comments from the audited entity on draft reports; and
- j. reporting findings and conclusions supported by the evidence obtained and in accordance with professional standards and applicable legal and regulatory requirements.

5.27 The form and content of the documentation of the audit organization's policies and procedures, as well as documentation of its compliance with those policies and procedures, are matters of professional judgment and will vary based on the organization's circumstances.

5.28 Documentation of policies and procedures, as well as compliance with those policies and procedures, may be either electronic or manual. For example, large audit organizations may use electronic databases to document matters such as independence confirmations, performance evaluations, and the results of monitoring. Smaller audit organizations may use more informal methods in the documentation of their systems of quality control, such as manual notes, checklists, and forms.

5.29 Consultation includes discussion at the appropriate professional level with individuals within or outside the audit organization who have relevant specialized expertise.

5.30 Consultation uses appropriate research resources, as well as the collective experience and technical expertise of the audit organization. Consultation helps promote quality and improves the application of professional judgment. Appropriate recognition of consultation in the audit organization's policies and procedures helps promote a culture in which

consultation is recognized as a strength and personnel are encouraged to consult on difficult or contentious issues.

5.31 Effective consultation on significant technical, ethical, and other matters within the audit organization or, when applicable, outside the audit organization can be achieved when

- a. those consulted are given all the relevant facts that will enable them to provide informed advice;
- b. those consulted have appropriate knowledge, authority, and experience; and
- c. conclusions resulting from consultations are appropriately documented and implemented.

5.32 Documentation of consultations with other professionals that involve difficult or contentious matters contributes to an understanding of

- a. the issue on which consultation was sought and
- b. the results of the consultation, including any decisions made, the basis for those decisions, and how they were implemented.

5.33 An audit organization needing to obtain specialized or technical expertise from external providers may take advantage of services provided by

- a. other audit organizations,
- b. professional and regulatory bodies, and
- c. commercial organizations that provide relevant quality control services.

5.34 Before contracting for services, consideration of the competence and capabilities of the external provider helps the audit organization determine whether the external provider is suitably qualified for that purpose.

5.35 Determining whether and how to communicate the reason for terminating an engagement or changing the engagement objectives to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the engagement, and other

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

Requirements: Supervision

5.36 The audit organization should establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.

5.37 The audit organization should assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and should establish policies and procedures requiring the organization to

- a. communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and
- b. clearly define the responsibilities of the engagement partner or director and communicate them to that individual.

Application Guidance: Supervision

5.38 Appropriate teamwork and training help less experienced members of the engagement team to clearly understand the objectives of the assigned work.

5.39 Engagement supervision includes the following:

- a. tracking the progress of the engagement;
- b. considering the competence of individual members of the engagement team, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;
- c. addressing significant findings and issues arising during the engagement, considering their significance, and modifying the planned approach appropriately; and

- d. identifying matters for consultation or consideration by engagement team members with appropriate levels of skill and proficiency in auditing, specialists, or both during the engagement.

5.40 A review of the work performed includes consideration of whether

- a. the work has been performed in accordance with professional standards and applicable legal and regulatory requirements;
- b. significant findings and issues have been raised for further consideration;
- c. appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- d. the nature, timing, and extent of the work performed is appropriate and without need for revision;
- e. the work performed supports the conclusions reached and is appropriately documented;
- f. the evidence obtained is sufficient and appropriate to support the report; and
- g. the objectives of the engagement procedures have been achieved.

5.41 In the case of a sole proprietor, the requirement for a second auditor to review work performed and related documentation may be achieved through alternative procedures.

Monitoring of Quality

Requirements: Monitoring of Quality

5.42 The audit organization should establish policies and procedures for monitoring its system of quality control.

5.43 The audit organization should perform monitoring procedures that enable it to assess compliance with professional standards and quality control policies and procedures for GAGAS engagements. Individuals

performing monitoring should have sufficient expertise and authority within the audit organization.

5.44 The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to the relevant engagement partner or director, and other appropriate personnel, any deficiencies noted during the monitoring process and recommend appropriate remedial action. This communication should be sufficient to enable the audit organization and appropriate personnel to take prompt corrective action related to deficiencies, when necessary, in accordance with their defined roles and responsibilities. Information communicated should include the following:

- a. a description of the monitoring procedures performed;
- b. the conclusions reached from the monitoring procedures; and
- c. when relevant, a description of systemic, repetitive, or other deficiencies and of the actions taken to resolve those deficiencies.

5.45 The audit organization should evaluate the effects of deficiencies noted during monitoring of the audit organization's system of quality control to determine and implement appropriate actions to address the deficiencies. This evaluation should include assessments to determine if the deficiencies noted indicate that the audit organization's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that accordingly the reports that the audit organization issues are not appropriate in the circumstances.

5.46 The audit organization should establish policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation.

Application Guidance: Monitoring of Quality

5.47 Monitoring of quality is a process comprising an ongoing consideration and evaluation of the audit organization's system of quality control, including inspection of engagement documentation and reports for a selection of completed engagements. The purpose of monitoring is to provide management of the audit organization with reasonable assurance that (1) the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice and (2) auditors have followed professional standards and applicable legal and regulatory requirements.

5.48 Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored.

5.49 Monitoring procedures will vary based on the audit organization's facts and circumstances.

5.50 Ongoing consideration and evaluation of the audit organization's system of quality control may identify circumstances that necessitate changes to, or improve compliance with, the audit organization's policies and procedures to provide the audit organization with reasonable assurance that its system of quality control is effective.

5.51 Ongoing consideration and evaluation of the audit organization's system of quality control may include matters such as the following:

- a. review of selected administrative and human resource records pertaining to the quality control elements;
- b. review of engagement documentation and reports;
- c. discussions with the audit organization's personnel;
- d. determination of corrective actions to be taken and improvements to be made in the system, including providing feedback on the audit organization's policies and procedures relating to education and training;
- e. communication to appropriate audit organization personnel of weaknesses identified in the system, in the level of understanding of the system, or compliance with the system; and

- f. follow-up by appropriate audit organization personnel so that necessary modifications are promptly made to the quality control policies and procedures.

5.52 Monitoring procedures may also include an assessment of the following:

- a. the appropriateness of the audit organization's guidance materials and any practice aids;
- b. new developments in professional standards and applicable legal and regulatory requirements and how they are reflected in the audit organization's policies and procedures, when appropriate;
- c. written affirmation of compliance with policies and procedures on independence;
- d. the effectiveness of staff training;
- e. decisions related to acceptance and continuance of relationships with audited entities and specific engagements; and
- f. audit organization personnel's understanding of the organization's quality control policies and procedures and implementation thereof.

5.53 Reviews of the work by engagement team members prior to the date of the report are not monitoring procedures.

5.54 The extent of inspection procedures depends, in part, on the existence and effectiveness of the other monitoring procedures. Inspection is a retrospective evaluation of the adequacy of the audit organization's quality control policies and procedures, its personnel's understanding of those policies and procedures, and the extent of the audit organization's compliance with them. The nature of inspection procedures varies based on the audit organization's quality control policies and procedures and the effectiveness and results of other monitoring procedures.

5.55 The inspection of a selection of completed engagements may be performed on a cyclical basis. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors, such as the following: