

## 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)
- 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
- 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
  - Ch 4
  - Streamlined language to harmonize with AICPA
  - 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
  - Applying certain AICPA standards
    - Materiality
    - Early communication of deficiencies (SAS No. 115)
  - 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
  - Ch 5
  - Separated attest requirements
    - Examination
    - Review
    - Agreed-upon procedures
  - Update considerations
    - Identified practice issue
    - Clarified distinctions between engagement types
    - Emphasized AICPA reporting requirements
  - 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