

## **AUDITING IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS)**

The United States Government Accountability Office (GAO) has developed and published **Government Auditing Standards** (GAS) that provides guidance and requirements to be used by auditors. The intent is to ensure GAGAS audits are conducted by competent, properly qualified professionals and with integrity, objectivity and independence. Some laws, contracts, grant agreements, government entities and others may require audits be conducted in accordance with GAGAS.

The GAO segregates audits into three categories: financial audits, attestation engagements, and performance audits. The **Government Auditing Standards**, sometimes referred to as the “Yellow Book,” contains seven chapters. Chapters 1 – 3 pertain to all audits, chapter 4 deals with financial audits, chapter 5 addresses attestation engagements, chapter 6 specifies field work standards for performance audits and chapter 7 details reporting standards for performance audits. DCA, LLC (DCA) currently performs only performance audits and GAGAS has identified five types of performance audits:

1. Program effectiveness – how well a program is achieving its goals and objectives,
2. Economy and efficiency – costs and resources used to execute a program,
3. Internal control – assessment of an organizations system of internal controls,
4. Compliance – assessment of compliance with laws, regulations, contracts, grant agreements and the like, and
5. Prospective analyses – analyses and conclusions of information and assumptions about future events along with recommendations that an entity may take reference the future events.

Construction contract audits, grant compliance audits, program evaluation / effectiveness audits (all of which have been performed by DCA) are performance audits as defined by GAGAS.

### **General Requirements and Audit Standards**

GAGAS emphasizes that government auditing is essential to ensure officials entrusted with public resources and authority are held accountable for the proper use / protection of those resources and the execution of the authority to which they have been granted.

Construction projects are some of the largest and most complicated expenditures of public funds. Spending tens / hundreds of millions of dollars to construct government facilities effectively, efficiently, and ethically is a formidable responsibility. Public officials (project owners / managers, internal audit executives) responsible for construction projects will find construction auditors / cost control experts a major asset in helping to ensure accountability and transparency in accord with the public’s trust. GAS requires construction auditors / experts to be:

- Independent,
- Professional,

- Competent, and
- Perform quality audit work and reporting.

DCA recognizes the obligation to preserve its independence, take on work only for which it is competent to perform, and follow applicable standards promulgated by The Institute of Internal Auditors (cited in GAGAS) and the GAO.

DCA works closely with the government entity / official to ensure the audit program properly identifies the audit objectives and the appropriate data / evidence required to affect a quality audit and subsequent report.

GAGAS identifies three General Standards and provides detail guidance (relating to each) for use by auditors. These include:

1. Independence,
2. Professional Judgment, and
3. Quality Control and Assurance.

Understanding and conforming to these standards are essential to effective construction auditing. Maintaining certifications and complying with continuing professional education requirements are two primary responsibilities of construction auditors.

### **Field Work Standards**

GAGAS details field work requirements that are necessary to obtain sufficient / appropriate data to provide reasonable assurance that such evidence supports the auditor's finding and conclusions. These include:

- Identification of significant risks,
- Properly planning (and documenting) audit objectives, scope, and methodology,
- Understanding and assessing internal controls,
- Identifying regulatory, contract and grant requirements,
- Maintaining an objective, professionally skeptical outlook for fraud risks,
- Ensuring sufficiency and quality of evidence collected,
- Maintaining well documented and organized work papers (audit documentation), and
- Other.

DCA's field work has been reviewed and found in compliance with The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.

### **Reporting Standards**

Performance audit (including construction audits) reporting standards address the form of the audit report, the content included therein, and report publication and issuance. They are intended to facilitate a quality, ethically responsible reporting process. GAGAS requires that audit reports contain "(1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted."<sup>1</sup>

Reports should include recognized deficiencies in internal controls, instances of fraud as may be detected, non-compliance with laws, procedures, contract requirements and the like. Reportings must be made to entity management (as appropriate) and outside parties where / when legally required. Auditor conclusions must be objective, logical, professionally (subject matter) competent and be supported by the audit evidence reviewed. Recommendations should logically flow from the audit findings. Responses / views of responsible officials should be included in audit reports. Auditors should also indicate the extent to which the audit complied with GAGAS standards and use appropriate language as specified by the GAO.

A successful GAGAS construction audit requires a trained and experienced construction auditor.

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<sup>i</sup> *Government Accountability Office, Government Auditing Standards*, 2011 Version (Washington, D. C. GAO, 2011), pg. 165.

### **Bibliographical References**

In addition to the *Government Auditing Standards*, 2011 Version, the following sources were used as references:

- *The Institute of Internal Auditors, International Professional Practices Framework (IPPF) and its "International Standards for the Professional Practice of Internal Auditing (Standards)" (Altamonte Springs, FL., 2011 Edition).*
- *Edward F. Kearney, Roldan Fernandez, Jeffrey W. Green and Cornelius E. Tierney, Federal Government Auditing, (Hoboken, NJ: John Wiley & Sons, Inc., 2006.*

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