

United States General Accounting Office



By the Comptroller General
of the United States

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Establishing Government Auditing Standards

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Foreword

Auditing has become an integral element of government accountability. This reliance on auditors has increased the need for standards to guide auditors and allow others to rely on the auditors' work. Standards help ensure that audits are fair, objective, and reliable assessments of government performance.

In preparing the 1988 revision of the Government Auditing Standards, I worked directly with an Auditing Standards Advisory Council that provided valuable suggestions and comments for improving the standards. A task force study which I recently requested concluded that such an Advisory Council should be established on a permanent basis to help keep the standards current through the issuance of revisions, interpretations, and guidance.

I proposed such an Advisory Council in an exposure draft issued in November 1989. The proposal included many of the suggestions of the advisory task force. The audit community was invited to comment on the draft and the plan received strong support. I therefore intend to proceed with seeking nominations and establishing the Council.

This document discusses the establishment of an Auditing Standards Advisory Council and the standard-setting process to be followed in the future. My experience with the previous

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Advisory Council has led me to believe that a permanent Council, working in conjunction with General Accounting Office support staff, will be an excellent means of keeping the standards up to date.

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Introduction

Standards for government auditing were first issued by the Comptroller General of the United States in 1972. These standards were the result of a series of meetings that began in 1969 and involved the Comptroller General, state auditors, and federal officials. Major revisions were made to the standards in 1981 and 1988.

Federal legislation requires that federal inspectors general comply with audit standards established by the Comptroller General for audits of federal organizations, programs, activities, and functions. The legislation further states that the inspectors general are to ensure that audit work conducted by nonfederal auditors of federal organizations, programs, activities, and functions complies with these standards.

Other federal auditors must also follow these standards. The Office of Management and Budget (OMB) included these standards as basic audit criteria for federal executive departments and agencies in OMB Circular A-73.

The Single Audit Act of 1984 requires that auditors follow these standards when auditing state and local governments which receive federal financial assistance.

Implementation of other federal policies and regulations, such as OMB Circular A-133 ("Audits of Institutions of

Higher Education, and Other Non-profit Institutions"), requires that these standards be followed in audits of entities receiving federal assistance.

Auditors conducting government audits under agreements or contracts may also be required to comply with these audit standards.

The government audit standards are generally applicable to and recommended for use by state and local government auditors and public accountants in audits of state and local government organizations, programs, activities, and functions. Several state and local audit organizations, as well as several nations, have officially adopted these standards.

Government Auditing Standards Advisory Council

The Comptroller General has determined that a permanent Advisory Council should be established, not only for future revisions of Government Auditing Standards, but also to provide advice and guidance on the standards between revisions.

Composition

The Council will be composed of 15 members with complementary skills that ensure a strong knowledge base in such areas as

- federal, state, and local government;
- hospitals, colleges and universities, and other nonprofit entities that

- receive government financial assistance;
- financial, compliance, and performance auditing;
 - program evaluation methods and standards;
 - data processing; and
 - management internal controls.

Selection and
Appointment

To identify candidates with such expertise, nominations will be sought from organizations that are representative of the audit community, including the following:

- the American Accounting Association,
- the American Institute of Certified Public Accountants,
- the Association of Government Accountants,
- the Government Finance Officers Association,
- the Institute of Internal Auditors,
- the National Association of Local Government Auditors,
- the National State Auditors Association, and
- the President's Council on Integrity and Efficiency.

Multiple nominees will be requested from each organization. They will be asked to identify individuals who possess the knowledge and skills sought for the Council. The Comptroller General will select the members.

The people selected will be considered individual Council members rather than representatives of any group.

Tenure

Each Council member will have a 3-year term of office. Initially, however, appointments will be for terms of 2, 3, and 4 years in order to stagger the turnover over the long run.

Frequency of
Meetings

The Council will meet as necessary, generally on a quarterly basis. Members of the Council will be expected to devote time to Council activities between meeting dates, but such demands are not expected to be excessive due, in part, to the support that will be provided by General Accounting Office (GAO) staff. Travel and per diem expenses that members incur to attend the meetings will be reimbursed by GAO.

Council Duties
and
Responsibilities

The Council will advise the Comptroller General on auditing standards issues throughout the standard-setting process. It will be involved in the identification, development, and issuance of revisions to Government Auditing Standards as well as interpretations of and guidance on the standards.

**Auditing
Standard-
Setting Process**

There is a continuing need to keep Government Auditing Standards current through the issuance of revisions, interpretations, and guidance. The following are the broad phases of the standard-setting process:

- issue identification;
- issue evaluation, selection, and resolution;
- issue drafting;
- issue exposure;
- evaluation of comments;
- incorporation of necessary changes; and
- issuance of final document.

The Advisory Council will generally be involved in all of these phases and will advise the Comptroller General of its views. Throughout the process, GAO staff will work with the Council and provide necessary staff support.

After considering the Council's advice, the Comptroller General will prescribe the final pronouncement, and GAO staff will prepare it for issuance.