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## Report on the implementation of the recommendations of the Task Force on the Quality of Audits of Governmental Units

Implementation Monitoring Committee (Task Force on the Quality of Audits of Governmental  
Units)

Task Force on the Quality of Audits of Governmental Units. Report of the Task Force on the  
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# Report on the Implementation of the Recommendations of the Task Force on the Quality of Audits of Governmental Units

MAY 1989

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***AICPA*** \_\_\_\_\_  
American Institute of Certified Public Accountants

## **NOTICE TO READERS**

This report has been prepared by the Implementation Monitoring Committee. The conclusions and recommendations presented are those of the committee members and have not been approved, disapproved, or otherwise acted on by the governing body of the American Institute of Certified Public Accountants. Therefore, this report is not an official pronouncement of the Institute.

# Report on the Implementation of the Recommendations of the Task Force on the Quality of Audits of Governmental Units

MAY 1989

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# Executive Summary

In its March 1987 report, the Task Force on the Quality of Audits of Governmental Units made twenty-five recommendations to improve the quality of audits of governmental units. The task force also recommended the establishment of an Implementation Monitoring Committee to monitor the implementation of the twenty-five recommendations, take appropriate steps to encourage implementation, and identify and make additional recommendations for improving the quality of audits if and when they become apparent. This report, prepared by the Implementation Monitoring Committee, presents the status of each of the task force's recommendations. The report contains a summary of what is being done to improve the quality of audits of governmental units and what has already been accomplished. It also includes recommendations for keeping the process in motion.

The twenty-five recommendations were grouped into categories known as the five Es: education of the auditor, engagement of the auditor, evaluation of the audit work, enforcement of professional standards, and exchange of information.

Included in the *education* category were eleven recommendations addressing such matters as ensuring that auditors of governmental units obtain relevant continuing education; ensuring that the continuing education programs are accurate and relevant and the instructors competent; improving the reliability of technical information provided to auditors; and providing auditors with timely, comprehensive, and authoritative guidance, including a statement on auditing standards that covers testing and reporting on compliance with applicable laws and regulations. Most of the recommendations included in the education category have been or are in the process of being implemented. For example, the 1988 revision of *Government Auditing Standards* (also known as the "Yellow Book") issued by the General Accounting Office (GAO) requires that auditors performing audits of governmental units complete a minimum amount of continuing professional education in general and specific subject areas. In addition, the AICPA Auditing Standards Board has issued a statement on auditing standards on compliance auditing.

The *engagement* category included four recommendations addressing the process for selecting the auditor and managing the conduct of the audits. The GAO conducted the study of the audit procurement process recommended in the task force's report. The study confirmed that the audit procurement process has a major effect on the quality of the audit. Hence, the National Intergovernmental Audit Forum has issued guidelines, as recommended in the task force's report, for procuring audit services.

*Evaluation* of the audit work included four recommendations on expanded guidelines for collection and use of data from the desk and working-paper reviews of governmental audits and for the institution of positive-enforcement

and required peer (or quality) review programs. All four have been implemented. Inspectors General regularly report on and analyze the results of their reviews of audit reports. The 1988 Yellow Book requires auditors of governmental units to participate in a quality review program.

*Enforcement* included two recommendations addressing improvement of and sharing information with audit oversight officials about the system for referring substandard audits and the disposition of reviews. These recommendations are being implemented.

The *exchange* section included four recommendations for enhancing the flow of information and the sharing of viewpoints among the members of the various governmental accounting and auditing organizations, such as the American Institute of Certified Public Accountants, the National State Auditors Association, and the President's Council on Integrity and Efficiency. Examples of improved exchange were increased participation by interested members of each group in the other organizations' work and governance, joint meetings and conferences, and the joint use of instructors from public practice and government to teach continuing professional education programs. Much has been done to increase the dialogue among the interested groups and organizations.

Of the twenty-five recommendations, twenty-three can be considered implemented. They have been executed through the performance of a specific event or the establishment of an ongoing program. Only two recommendations, for which the implementation responsibility resides with the Office of Management and Budget and the National and Regional Intergovernmental Audit Forums, have not been implemented. The organizations have decided either that implementation is unnecessary or that they do not have sufficient resources. The twenty-three recommendations that were implemented have produced a more precise definition of governmental auditing requirements. They have also improved the oversight and guidance available to governmental auditors and have drawn attention to the importance of governmental auditing. These developments, accompanied by continuing efforts toward further implementation of the task force's recommendations, should produce additional improvements in the quality of audits of governmental units.

Indeed, although it is still early in the program and the statistics the Inspectors General report to Congress are primarily for audits performed *before* the quality assurance changes were made, there are indications that the quality is already improving. It may be some time before the Inspectors General are able to review audits performed *after* the quality assurance changes have been made and have had a chance to affect the auditors' performance. However, after all changes have taken effect, the statistics of the Inspectors General should show measurable improvements in audit quality.

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# Introduction

In 1985, the American Institute of Certified Public Accountants (AICPA) established a Task Force on the Quality of Audits of Governmental Units and charged it with the following:

1. Determining the factors that adversely affect the quality of nonfederal auditors' financial and compliance audits of governmental units and funds, and recommending ways to correct these conditions
2. Identifying programs to improve government officials' understanding of the factors necessary to obtain quality audits of governmental units and funds.

In 1987, the task force issued its report. The report contained twenty-five recommendations organized into five categories: education of the auditor, engagement of the auditor, evaluation of the quality of audits, enforcement of professional standards, and exchange of information. It identified the organization that would be most appropriate for implementing each recommendation, and recommended the establishment of a committee that would monitor and periodically report on the implementation of the recommendations.

Achieving and maintaining audit quality is a long-term process that requires continuing diligence. Although almost all the task force's recommendations have been implemented by performance of a specific task or establishment of an ongoing program, it is still early in the process and many of the changes have not had a chance to affect the individual audits.

For example, training in governmental accounting and governmental auditing is now required for auditors conducting governmental audits. However, it will take time for auditors to receive the additional training and to apply it on their audits. Likewise, peer-review and positive-enforcement programs have been established which tend to detect and correct deficient auditing practices. It will take time, however, for these reviews to be conducted and particularly for any audit practice corrections which may be triggered by the reviews to be implemented and applied to audits.

Nonetheless, the changes necessary to improve and maintain the quality of audits of governmental units have been set in motion. These changes should, in time, have a measurable impact on the auditors' performance.

This report, therefore, presents two elements in the continuing program to improve and maintain the quality of audits of governmental units. First, it presents the status of the implementation of the twenty-five recommendations two years after publication of the task force report, plus the nature and results or other steps taken since that time to improve the quality of governmental audits. (The recommendations are presented in boldface italic type; the original explanatory text that accompanied each follows in boldface.) The Appendix consists of a chart that shows each of the recommendations, the identity of the group(s) that accepted responsibility for its implementation, and whether this recom-

mendation has been implemented by the completion of a specific task or the establishment of a continuing program, or whether there has been limited or no action.

The second element is a description of what is needed to keep the audit quality program progressing. As with the implementation of the twenty-five recommendations, the AICPA and the auditors cannot do it alone. The participation of each group that has an interest in the quality of audits of governmental units is needed to ensure that all elements of the program are adequately addressed.

## **Education of the Auditor**

### **Recommendation No. 1—Require auditors of governmental units to complete relevant continuing professional education programs.**

**Auditors of governmental organizations, programs, activities, and functions should be required to complete continuing professional education (CPE) courses in the unique aspects of governmental accounting and governmental auditing.**

An auditor conducting an audit of a governmental unit states in certain of the auditor's reports that the audit was conducted in accordance with governmental auditing standards. These standards were revised in July 1988 and now require that "individuals responsible for planning, directing, and conducting substantial portions of field work or reporting on government audits should complete 80 hours of continuing education, including at least 24 hours of continuing education and training in subjects directly related to the government environment and government auditing, every two years, and at least 20 of the 80 hours must be completed in each year of the two-year period." This change in governmental auditing standards provides a foundation for assuring that persons conducting audits of governmental units have had the necessary continuing professional education in governmental accounting and governmental auditing.

The following are other steps that have been taken to assure that auditors of governmental units have completed relevant continuing professional education programs.

- Some states, such as Florida, are requiring that the auditors of local governments within their states complete a prescribed amount of continuing professional education, including a prescribed amount in subjects directly related to governmental environment and governmental auditing.
- A booklet to guide the audit procurement process, titled *How to Avoid a Substandard Audit: Suggestions for Procuring an Audit*, has been published by the National Intergovernmental Audit Forum (NIAF). It recommends that continuing professional education, particularly in governmental

accounting and governmental auditing, be included as one of the auditor selection criteria.

- The members of the National State Auditors Association (NSAA) and the Government Finance Officers Association (GFOA) have passed resolutions supporting the requirement that auditors of their governments' financial statements should complete the prescribed amounts of continuing professional education.
- *Guidelines and Model Authorizing Legislation Regarding Audits of Local Governments*, prepared by the Local Government Auditors Association, includes a provision requiring auditors to have fulfilled the prescribed continuing professional education requirements.

Finally, the AICPA amended its bylaws to require, as a condition of membership, that effective January 1, 1990, its members in public practice obtain at least 120 hours of continuing professional education every three years, and its members not in public practice obtain first 60 hours, and, beginning in 1993, 90 hours of continuing professional education every three years. While these requirements do not specify education in governmental environment and governmental auditing, they will help elevate the quality of all audits performed by members of the AICPA, including audits of governmental units.

***Recommendation No. 2—Ensure quality of continuing professional education courses in governmental accounting and governmental auditing.***

**All new governmental accounting and governmental auditing courses offered by the AICPA, including the self-study programs discussed in Recommendation No. 4, should be reviewed before presentation by the AICPA State and Local Government Committee [renamed the Government Accounting and Auditing Committee]. They should be reviewed annually and updated for continued relevance as necessary.**

The AICPA Government Accounting and Auditing Committee has adopted a program in which committee members are assigned to review each governmental continuing professional education program offered by the AICPA that is rewritten or revised. These programs consist of five group-study, three self-study, and three video courses. The purpose of the reviews is to assure that the content of the programs is accurate and relevant. The reviewers' comments are reflected in the programs prior to their release.

In addition, the AICPA has established a Government Accounting and Auditing Certificate of Educational Achievement (GAACEA) program. This program contains four courses: Government Accounting Principles and Financial Reporting, Financial Audits of Governmental Entities, Advanced Governmental Auditing, and Auditing Under the Single Audit Act of 1984. Persons who com-

plete this program should acquire a deep understanding of the requirements associated with auditing a governmental entity.

Other ways the AICPA, through the Government Accounting and Auditing Committee, is assuring the quality of the continuing professional education in governmental accounting and governmental auditing include the following:

- Committee members actively participate in the Annual National Governmental Accounting and Auditing Update Conference.
- Committee members are assigned to the Steering Committee of the Annual National Governmental Training Program Conference.
- Committee members have actively participated in the development of the AICPA's Government Accounting and Auditing Certificate of Educational Achievement program.
- Committee members develop or review practice aids, such as peer review programs and disclosure checklists.

**Recommendation No. 3—Ensure quality instructors for courses in governmental accounting and governmental auditing.**

**Steps should be taken to ensure that instructors of the AICPA governmental accounting and governmental auditing courses are properly qualified and adequately trained to teach the courses.**

The Government Accounting and Auditing Committee, the President's Council on Integrity and Efficiency (PCIE), and state auditors in twenty-eight states have provided names of recommended instructors to the AICPA's CPE Division. The GAACEA Task Force has used this list to develop a bank of approved instructors for the four GAACEA courses. The AICPA and the state societies of CPAs also provide the names and ratings, from courses previously taught, of all instructors who can teach the governmental accounting and governmental auditing program to the state societies, which often sponsor the programs. In addition, the *Local Government Auditor's Newsletter* has requested that experienced governmental auditors with teaching skills advise their state CPA societies of their availability to teach governmental accounting and governmental auditing programs. Finally, the AICPA held a special program to train instructors on how to conduct its new course on the revision of Government Auditing Standards.

**Recommendation No. 4—Increase marketing of AICPA self-study programs.**

**Self-study programs in governmental accounting and governmental auditing, including video programs, should be marketed actively, particularly in geographic areas where it would be difficult for auditors to participate in a group-study program.**

The AICPA prepared and distributed seventy-two thousand copies of a flyer describing three self-study courses in governmental accounting and governmental auditing—Introduction to Governmental Accounting, Audits of State and Local Governmental Units, and Performing a Single Audit of State and Local Governments. The flyer was mailed to AICPA members who work in or indicated an interest in government, state audit offices, and Offices of Inspectors General.

***Recommendation No. 5—Work together to maximize the quality of courses offered by all organizations.***

**The AICPA should work with other organizations that offer governmental accounting and auditing courses to receive or provide information that would improve the quality of such courses.**

The AICPA organized a meeting of six major organizations that provide continuing professional education in governmental accounting and governmental auditing. These are the AICPA, the Association of Government Accountants, the Government Finance Officers Association, the National State Auditors Association, the state CPA societies, and the U.S. Department of Agriculture Graduate School Interagency Auditor Training Program. The meeting consisted of preliminary discussions about the value of a program that would help improve the quality of all courses in governmental accounting and governmental auditing. The program would include defining the body of knowledge needed for governmental auditors and establishing (1) criteria for quality continuing professional education programs, (2) standards that define quality training materials and quality instructors, (3) a mechanism for internal quality reviews of continuing professional education programs, and (4) a program for providing peer reviews of an organization's continuing professional education programs. One or more of the organizations might decide to keep the program going.

***Recommendation No. 6—Develop a statement on auditing standards on compliance with applicable laws and regulations.***

**A statement on auditing standards relating to auditing for and reporting on compliance with applicable laws and regulations should be developed and issued.**

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*. The board is using this standard to define how the requirement in a governmental audit to study, evaluate, and report on internal control should be fulfilled.



***Recommendation No. 7—Strengthen the capability of the AICPA to provide timely technical advice.***

**The AICPA Technical Information Division's capacity to provide a timely response to questions relating to governmental accounting and governmental auditing should be strengthened and maintained.**

The AICPA Technical Information Division has taken several steps to improve its ability to provide timely technical advice. These steps include adding government-oriented materials to the division's technical information library, assuring that members of the division's staff are knowledgeable in governmental accounting and governmental auditing, publishing additional reference and practice aid materials, and providing a greater number of information retrieval services.

Specifically, monthly training sessions now include Statements of Governmental Accounting Standards, GAO and Office of Management and Budget (OMB) pronouncements, and frequently asked governmental practice questions. Members of the staff have increased their attendance at AICPA conferences and sessions on governmental accounting and governmental auditing. A file of governmental auditing questions received by the Technical Information Division and the related answers is available for review by members of the Government Accounting and Auditing Committee.

The AICPA recently published *Disclosure Checklists and Illustrative Financial Statements for State and Local Governmental Units: A Financial Reporting Practice Aid* and the first edition of *Local Government Accounting Trends and Techniques*. The checklists identify the general purpose financial statement disclosures required by generally accepted accounting principles. *Trends and Techniques* provides the results of an annual survey of the accounting and reporting practices followed by 500 local governmental units that had single audits.

Furthermore, the AICPA has included government-related material in its other publications. For example, *AICPA Technical Practice Aids* includes inquiries and replies related to the audits of state and local governmental units and the Single Audit Act of 1984. The *AICPA Audit and Accounting Manual* includes illustrative internal-accounting-control questions for state and local governmental units and a model accountants' report on the general purpose financial statements of a state or local governmental unit. Finally, government-related questions and answers are included in the *Journal of Accountancy's* Qs&As Technical Hotline column as well as in *Technical Practice Aids*, as stated above.

Some of the governmental technical practice aid materials are available on-line through the National Automated Accounting Research System (NAARS). These on-line materials include the Governmental Accounting Standards Board's Statements on Governmental Accounting Standards, Office of Management and Budget circulars and other materials, GAO standards, and the full text of the annual reports of 1,000 local governments that had a single audit.

The Technical Information Division is working with the Government Accounting and Auditing Committee to develop a generic audit program for the audit of a local government that incorporates onto audit-program-generator-compatible diskettes all governmental practice aids, which include the audit program, an internal accounting control questionnaire, and the disclosure checklist. An audit program generator, or APG, is a computer software tape that facilitates audit planning and audit-program preparation. With increased availability APG will greatly assist in the tailoring of the audit program to individual audits.

***Recommendation No. 8—Strengthen the capability of government officials to provide timely technical advice.***

**The capacity of the regional offices of Inspectors General and other governmental organizations to provide timely and proper guidance to recipients of federal financial assistance and their independent auditors should be strengthened and maintained.**

The PCIE Standards Subcommittee issued four Position Statements that provide guidance to Office of Inspector General personnel who review single audits. The PCIE has also begun to hold quarterly meetings with accountants in public practice and with those involved in governmental auditing. The purpose of these meetings is to identify, discuss, and resolve issues that could affect the quality of government audits, particularly single audits at the state and local government levels. The PCIE did not repeat the process in which teams led by the Inspectors General trained all personnel involved in audits of state and local governments in each of the ten regional cities. However, with the help of conference calls, written directives, and other means, regional staffs have been able to augment their capability for providing timely technical advice.

The NSAA conducted a survey of state audit organizations to determine the extent of their capabilities and activities in providing timely technical advice. Thirty-four states responded: seventeen stated they have designated a person, and thirteen have a department that responds to technical audit questions. Seven states indicated they produced an audit guide, and five states conducted or sponsored training seminars. Although this process did not directly increase the state auditor's capabilities or activities for providing advice, it fostered growing interest in the concept, which could lead indirectly to some improvements.

***Recommendation No. 9—Review the Compliance Supplement annually and update it if necessary.***

**The Compliance Supplement for Single Audits of State and Local Governments, published by the Office of Management and Budget, should be reviewed annually, and updated as necessary.**

OMB is committed to a periodic update of the *Compliance Supplement*. During the past year, OMB asked the federal agencies to provide the necessary information about new and revised federal financial assistance programs. The agencies responded by revising the *Compliance Supplement*, which is expected to be published in 1989.

**Recommendation No. 10—Develop compliance requirements and suggested audit procedures for programs not included in the Compliance Supplement.**

**The compliance requirements and suggested audit procedures for federal financial assistance programs not included in the *Compliance Supplement* should be developed by the respective agencies and made available to auditors.**

State auditors have identified forty-six federal assistance programs that are likely to be major programs for some recipients and for which the compliance requirements and suggested audit procedures are not in the *Compliance Supplement*. The Inspectors General have provided guidance for ten of these programs in audit guides for the programs. They report that they have also prepared guidance for approximately thirty-seven other programs; some of which are in addition to the forty-six identified by the state auditors. However, because there is no program that monitors the format and depth of the compliance requirements and suggested audit procedures, there is no assurance of their consistency with the format and depth of the requirements and procedures in the *Compliance Supplement*. In addition, a program has not been designed that provides widespread announcements of these requirements and procedures by using commercial subscription services, professional organizations, or the *Federal Register*.

**Recommendation No. 11—Update the OMB questions and answers booklet.**

***Questions and Answers on the Single Audit Provisions of OMB Circular A-102 “Uniform Requirements for Grants to State and Local Governments,” published by the Office of Management and Budget, should be updated to reflect the issuance of Circular A-128.***

Published by the OMB in November 1987 and in the *Federal Register* November 13, 1987, the updated *Questions and Answers on the Single Audit Provisions of OMB Circular A-128, “Single Audits of State and Local Governments”* contains fifty-three questions and answers pertaining to single audits.

## Engagement of the Auditor

### **Recommendation No. 12—Undertake a study of the audit procurement process.**

**A comprehensive study should be undertaken of the procurement of audit services and the way in which that process influences audit quality.**

The GAO conducted a study of the process used to procure audits and issued a report in August 1987 titled *CPA Audit Quality—A Framework for Procuring Audit Services* (GAO/AFMD 87-34). This study confirmed that the quality of the audit procurement process affects the quality of the audits. In doing so, it identified four elements that should be present in every audit procurement process in order to maximize the likelihood of a high quality audit.

Following are the four elements:

- *Competition*—have a sufficient number of firms compete for the audit
- *Solicitation*—provide the firms with sufficient information about the government to enable them to fully understand the requirements for the audit
- *Technical evaluation*—fully consider the technical qualifications of the proposing firms
- *Written agreement*—have a way to ensure there is no misunderstanding about the auditor's responsibilities

### **Recommendation No. 13—Develop and distribute a model request for proposal.**

**A model request for proposal for audit services should be developed and widely distributed.**

The NIAF booklet *How to Avoid a Substandard Audit: Suggestions for Procuring an Audit*, published in May 1988, incorporates much of the information in the Western Intergovernmental Audit Forum's *Guidelines for Preparation of Requests for Audit Proposals*, but includes five chapters that provide guidance on the overall audit procurement process. The five chapters are: 1) Plan, An Essential First Step; 2) Competition and Solicitation, Communicating Audit Requirements; 3) Technical Evaluation, Selecting a Qualified Auditor; 4) The Written Agreement, Documenting Expectations; and 5) Audit Monitoring, Ensuring a Quality Audit. Eighty thousand copies of the booklet were distributed to state and local governments, Offices of Inspectors General, NIAF members, and others interested in audit quality.

In addition, the GFOA and the NSAA are currently developing a comprehensive handbook on managing audits that will include information on procuring the audits and should be available in 1989.

**Recommendation No. 14—Standardize agency implementation regulations for the single audit.**

**The federal government’s numerous rules that govern the conduct of a single audit should be consolidated into a single rule. The rules should be expanded to incorporate certain applicable recommendations discussed in this report.**

The OMB has decided that, because the agency’s single-audit regulations do not differ substantially, a single rule is not needed at this time. This decision will be reviewed periodically and may be revised if circumstances change.

**Recommendation No. 15—Place all audit activities under the responsibility of knowledgeable officials.**

**Compliance with the requirements for audits conducted for or on behalf of governments should be monitored by an Office of Inspector General at the federal level, the respective state auditor’s office at the state level, or the independent local auditor’s office at the local level, if one exists.**

In May 1988, the GAO released a report (*Improved Controls are Needed to Ensure Quality Audits of Federal Loan Programs—GAO/AFMD-88-3*) that confirmed that government audits in which the Inspector General is not involved are generally not reviewed for quality by an individual or organization able to judge quality. The report recommended several steps the federal agencies could take to ensure quality in these audits. Specifically, the agencies should provide adequate written guidance to CPAs performing the audits; require CPAs to follow government auditing standards; establish and maintain controls for receiving CPA audit reports on time and following up on past due reports; and review the reports for audit quality. The report also recommended at least a minimum level of involvement for an agency’s Office of Inspector General. The agencies at which this study was conducted generally agreed with the recommendations and committed to work toward their implementation.

State auditors’ offices generally have the oversight responsibility for the audits of local governments within their states and are gradually expanding their jurisdiction to encompass the audits of other types of entities within their states. The model authorizing legislation for local government auditors provides that the local auditor will coordinate and monitor audits performed by those independent auditors and accountants who are employed under contract.

## Evaluation of the Quality of the Audits

### **Recommendation No. 16—Expand guidelines for PCIE audit report and working-paper reviews.**

**The guidelines for conducting audit report and working-paper reviews included in the federal *Cognizant Agency Audit Organization Guidelines* should be expanded to ensure comprehensive, consistent quality-control reviews.**

In September 1987, the PCIE prepared two comprehensive review checklists, "Uniform Desk Review Guide for Single Audits" and "Uniform Quality Control Review Guide for A-128 Single Audits," and provided them to all cognizant agencies. The PCIE also made the checklists available to auditors and others involved in the audits of governmental units.

The PCIE has committed to update the checklists to reflect the 1988 revision to *Government Auditing Standards* and the new statement on auditing standards on compliance auditing.

### **Recommendation No. 17—Use data obtained from audit report and working-paper reviews.**

**The audit deficiency data collected during audit report and working-paper reviews should be categorized by type of deficiency and solutions sought for recurring and systemic problems.**

The PCIE developed a format for reporting deficiencies identified during reviews of audit quality. The Inspectors General began including the information, which includes both statistical and descriptive data, in their semiannual reports to Congress. The statistics include the numbers of total reports issued, desk reviews, quality-control reviews, reports issued without change, reports changed following a desk review, reports changed following a quality-control review, reports found not satisfying federal requirements, auditors referred to state boards and the AICPA, and auditors against whom other sanctions were taken. On certain occasions, statistics indicating the types and frequencies of deficiencies are also reported. The descriptive information includes examples of deficient audits and the results of referrals to state boards and the AICPA.

The Inspectors General have started to send the reports to the AICPA. The sections of the reports that contain the examples of deficiencies are being abstracted and forwarded to the Government Accounting and Auditing Committee, the CPE Division, and the Technical Information Division. This information will then be considered by these groups for inclusion in training programs, technical practice aids, and other guidance.

**Recommendation No. 18—Institute positive-enforcement programs.**

**A positive-enforcement program that includes reviews of audits of governmental units should be instituted in each state.**

The National Association of State Boards of Accountancy (NASBA) continues to encourage all state boards to adopt the NASBA-developed model positive-enforcement program. A joint NASBA/AICPA committee is working on a program to coordinate positive enforcement with AICPA quality review (QR). The plan is to have participants in the AICPA QR program automatically qualified for the state board positive-enforcement requirement. A key element in this plan would be a NASBA quality review oversight board (QROB) with access to all actions of the AICPA QR program, which would submit an annual report thereon. State boards could then rely on the work of the QROB in administrating their own positive-enforcement programs.

**Recommendation No. 19—Require participation in peer reviews.**

**Auditors and audit organizations performing audits of governmental funds should be required to participate in a peer-review program that includes reviews of the governmental audits.**

In certain auditors' reports, the auditor conducting an audit of a governmental unit states that the audit was conducted in accordance with government auditing standards. The government auditing standards were revised in July 1988 and now require that, as of January 1, 1989, audit organizations engaged in governmental audits must participate in an external quality-control review (peer review) at least once every three years. The required review must include governmental audits and be performed by a nonaffiliated organization; the reviewer's report must be made available to other auditors and appropriate oversight bodies relying on the work of the audit organization reviewed. An acceptable external quality-control review would be the AICPA practice-monitoring program or an equivalent program, such as one conducted through or by the NSAA, the NIAF, or the GAO. This change in governmental auditing standards provides a foundation for ensuring that organizations engaged in governmental audits participate in an acceptable external quality-control-review program.

Following are other steps taken to ensure that audit organizations engaged in governmental audits participate in a peer-review program:

- Some states, such as Florida, require that audit organizations performing audits of governmental funds participate in an external quality-control (peer-review) program.
- The members of the NSAA and the GFOA passed resolutions supporting the requirement that organizations auditing their governments' financial statements participate in a peer-review program.

- The model authorizing legislation prepared by the Local Government Auditors Association requires a peer review by auditors of local governments at least once every four years, which will be changed to once every three years to be consistent with the Yellow Book.

As part of its Plan to Restructure Professional Standards, the AICPA amended its bylaws to require participation in a quality-review program as a condition of membership. If the reviewed firm performs audits of governmental units, a sample of these audits must be included in the reviews.

## **Enforcement of Professional Standards**

### **Recommendation No. 20—*Improve the system for referring substandard audits.***

**The system for referring allegedly substandard audits to licensing authorities and professional organizations should be modified to lessen the paperwork required to initiate a referral, enable the investigation to be completed in less time, and provide feedback to the referring and other appropriate officials.**

The NASBA has taken an active role in encouraging state boards of accountancy (SBOA) to quickly process referrals, for substandard work on governmental audits, received from the General Accounting Office or Inspectors General. The AICPA's Ethics Division began informing Inspectors General of the status and results of ethics investigations that had been initiated by referrals of allegedly substandard audits. Ethics Division representatives meet quarterly with Inspectors General or their representatives to discuss these investigations and any identified issues. The AICPA is also working with NASBA to improve the effectiveness of the Joint Ethics Enforcement Program by facilitating coordination between the AICPA and the state boards. In this way, duplication of referrals investigations will be prevented, and all referrals will be resolved promptly. In April 1988, the GAO reported that it had a positive impression of the accounting profession's enforcement efforts (*A Status Report on the Accounting Profession's Enforcement Efforts*—GAO/AFMD-88-28).

NASBA also provided the PCIE a list of thirty-three state boards that wish to participate in the expansion of a process, first used in Florida, whereby the Inspectors General provide state boards with copies of letters that inform auditors that their audits appear deficient. Although this process does not constitute a formal referral, it increases the likelihood that the informed auditor will make the correction and, at the same time, helps the SBOAs identify where problems are likely to occur. The PCIE provided this information to its member Inspectors General.



The NASBA has subscribed to the National Disciplinary Information System. This program, sponsored by the Clearinghouse on Licensure, Enforcement, and Regulation, provides cumulative reports of final disciplinary actions taken against licensees by state boards.

***Recommendation No. 21—Inform government oversight officials about the improved referral system.***

**Guidelines should be developed and distributed to explain the referral process to organizations that would have a need to make referrals.**

The PCIE issued Position Statement No. 4, which defines a uniform referral process. The statement provides examples of referable conditions, recommends referral procedures, and describes the contents of a standard referral package. The examples of referable conditions include unqualified auditors, inadequate workpapers, omission of a major report component, and failure to correct sub-standard work in a timely manner. The recommended referral procedures include 1) an exchange of letters between the audit oversight organization and the auditor before referral; 2) distribution of a referral package that contains (a) cover letters to the state board having jurisdiction to investigate the complaint, to the AICPA, and to the auditor named in the referral letter, (b) the referred audit report, and (c) all correspondence between the referring official and the auditor pertaining to the referred audit; and 3) a request for transmittal of the state board or AICPA decisions to the referring organization and the named auditors after completion of the investigations.

## **Exchange of Information**

***Recommendation No. 22—Open membership in the Intergovernmental Audit Forums to CPAs in public practice.***

**Membership in the National and Regional Intergovernmental Audit Forums should be opened to CPAs in public practice.**

The NIAF considered admitting CPAs in public practice as members, but subsequently deferred the vote. The forum will continue its practice of permitting these individuals to attend its quarterly meetings and express themselves when appropriate.

The ten regional Intergovernmental Audit Forums operate independently of NIAF and each other and have varying views regarding the inclusion of CPAs in public practice into membership. Four forums (New York/New Jersey, Mid-America, Mountain and Plains, Pacific Northwest) include CPAs in public practice, representing their state societies, as full voting members. Four forums

(Mid-Atlantic, Southeastern, Midwestern, Southwest) include CPAs in public practice, representing their state societies, as nonvoting associate members. Two forums (New England, Western) permit CPAs in public practice to be observers.

**Recommendation No. 23—Expand the dialogue and exchange of information.**

**The dialogue and exchange of information among the various individuals involved in governmental auditing should be expanded.**

In the last two years, the dialogue among the various individuals involved in governmental auditing has increased substantially. The most recent National and Regional Intergovernmental Audit Forum, held in May 1988, had the largest attendance of any forum meeting—over 600 governmental auditors from all levels of government, CPAs in public practice, and academics. The planning for the conference program was undertaken by representatives of numerous organizations, including the GAO, Offices of Inspectors General, state auditors, city auditors, and CPAs in public practice.

There also has been a marked increase in the number of regional conferences sponsored jointly by two or more governmental audit or financial management organizations and in attendance at these meetings by members of various organizations. These conferences have provided opportunities for an ever-increasing flow of information and ideas among all of the professionals participating in the audits of governmental units.

At national and regional professional conferences, Inspectors General and members of their staffs have made numerous presentations about the requirements for single audits and audits of the programs of their agencies. These presentations, and the continuation of the quarterly roundtables the Inspectors General initiated in order to meet with representatives of CPA firms with multiple offices, have provided a forum for the identification and resolution of existing and potential problems.

The NASBA has decided it will attempt to have a state board of accountancy member attend the meetings of each regional intergovernmental audit forum.

**Recommendation No. 24—Increase participation in governing bodies and committees.**

**The governing bodies and committees of the AICPA should include individuals from the governmental audit community, and the governing bodies and committees of the governmental auditors, and financial management associations should include CPAs in public practice.**

The AICPA Members in Government Committee identified twenty-nine AICPA committees and subcommittees to which the appointment of a CPA

working in government would be desirable. The AICPA, in response, appointed thirty-nine government employees to twenty committees and subcommittees. There are also two members in government on the AICPA Council.

At the same time, CPAs in public practice are getting more involved in professional associations of government officials. The Association of Government Accountants elected for the first time a nonfederal employee as its president. The Association is actively promoting memberships among all levels of government officials to obtain new perspectives and thus strengthen the organization. Also for the first time, it awarded its "President's Award" to a CPA in public practice.

In the Government Finance Officers Association, CPAs in public practice are actively sought as reviewers of comprehensive annual financial reports (CAFRs) submitted by state and local governments that are applying for the Certificate of Achievement for Excellence in Financial Reporting. Similarly, several CPAs in public practice were selected to serve on the GAO Task Force on Future Government Auditing Standards Matters.

**Recommendation No. 25—*Include federal and state auditors as coinstructors in governmental training programs.***

**Federal and state auditors should be included as coinstructors for the AICPA governmental auditing CPE courses; complimentary registrations should be given to members of their organizations.**

The PCIE provided a list of twenty-five Inspector General staff members who are qualified to serve as second instructors in governmental auditing courses, including courses in the GAACEA program. The persons identified by the NSAA, the Local Government Auditors Association, and the AICPA Members in Government Committee could also serve as second instructors. There have been several single-audit courses at which such a second instructor was present.

# Conclusion

Twenty-three of the twenty-five recommendations have been implemented by either the performance of a specific event or the establishment of an ongoing process that will continue indefinitely (see Appendix). For only two of the recommendations has there been limited or no action—and this is due, in part, to a belief by the responsible organizations, such as the OMB and the NIAF, that the recommendation would not have a significant impact on audit quality, and, in part, to insufficient personnel resources.

Although substantial progress has been made, many of the changes have neither yet reached the individuals performing the audits, nor have had a chance to affect their performance. Indeed, statistics presented by the Inspectors General, in their most recent semiannual reports to Congress, which were drawn generally from reviews of audits conducted when audit quality was first addressed and the changes had not yet been adopted, show only a slight improvement in the quality of governmental audits. It is assumed that subsequent reviews of audits, and particularly audits conducted after the changes resulting from the implementation of the recommendations have had a chance to affect auditors' performance, will show the expected improvement in quality.

Hence, although the Implementation Monitoring Committee will be disbanded upon publication of this report, the monitoring of the implementation of the recommendations and the quality of the audits should continue. It is vital that the audits of governmental units conform to professional standards.

Accordingly, the Inspectors General and the GAO will need to continue fulfilling their legal mandate and determine whether audits of governmental units and funds are performed in accordance with professional standards. They should share the results of this process with the AICPA. At the same time, other groups participating in this program and responsible for implementing one or more recommendations should ensure that any tasks or programs they adopted as a result of this quality improvement effort are completed and/or continue to operate in an effective manner. Finally, the AICPA, through its Government Accounting and Auditing Committee, should monitor 1) statistics provided by the GAO and Inspectors General as indicative of the overall quality of the audits and 2) implementation of the twenty-five recommendations, as well as other programs, to improve the quality of government auditing. Knowledge of the latter would result from the position of most committee members in the government audit community. The committee could then recommend whatever steps it finds necessary to assure the tools are in place for performing the audits in accordance with standards.

The cooperative effort among the many groups interested in and affected by the quality of government audits has done much to improve performance. This cooperative effort should continue. It is the most effective way to achieve the sixth and most important E—excellence.



# Appendix

**Status of the Implementation of the Recommendations  
of the Task Force on the Quality of Audits of Governmental Units**

| Recommendation No.   | Implementation Responsibility |                       |                              | Implementation Status    |                                |                      |
|--|-------------------------------|-----------------------|------------------------------|--------------------------|--------------------------------|----------------------|
|  | Auditor                       | Auditee               | Audit Oversight Organization | Specific Event Completed | Continuing Program Established | Limited or No Action |
| 1. Auditors of governmental organizations, programs, activities, and functions should be required to complete continuing professional education courses in the unique aspects of governmental accounting and governmental auditing.  | Auditor (S)                   | Governmental Unit (S) | GAO (P),<br>OMB (S)          | X                        |                                |                      |
| 2. All new governmental accounting and governmental auditing courses offered by the AICPA, including the self-study programs discussed in Recommendation No. 4, should be reviewed before presentation by the AICPA Government Accounting and Auditing Committee. They should be reviewed annually and updated for continued relevance as necessary. | AICPA (P)                     |                       |                              |                          | X                              |                      |
| 3. Steps should be taken to ensure that instructors of the AICPA governmental accounting and governmental auditing courses are properly qualified and adequately trained to teach the courses.   | AICPA (P)<br>SSOC (P)         |                       |                              |                          | X                              |                      |
| 4. Self-study programs in governmental accounting and governmental auditing, including video programs, should be marketed actively, particularly in geographic areas where it would be difficult for auditors to participate in a group-study program.   | AICPA (P)                     |                       |                              | X                        |                                |                      |
| 5. The AICPA should work with other organizations that offer governmental accounting and governmental auditing courses to receive or provide information that would improve the quality of such courses.   | AICPA (P)                     |                       |                              |                          |                                | X                    |

6. A statement on auditing standards relating to auditing for and reporting on compliance with applicable laws and regulations should be developed and issued. AICPA (P) X

7. The AICPA Technical Information Division's capacity to provide a timely response to questions relating to governmental accounting and governmental auditing should be strengthened and maintained. AICPA (P) X

8. The capacity of the regional Offices of Inspectors General and other governmental organizations to provide timely and proper guidance to recipients of federal financial assistance and their independent auditors should be strengthened and maintained. IGs (P), SAO (P) X

9. The *Compliance Supplement for Single Audits of State and Local Governments*, published by the Office of Management and Budget, should be reviewed annually, and updated as necessary. OMB (P) X

10. The compliance requirements and suggested audit procedures for federal financial assistance IGs (P) X

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|       |   |      |   |
|-------|---|------|---|
| P     | = Primary role  | NIAF | = National Intergovernmental Audit Forum          |
| S     | = Secondary role                                      | NSAA | = National State Auditors Association             |
| AGA   | = Association of Government Accountants               | OMB  | = Office of Management and Budget                 |
| AICPA | = American Institute of Certified Public Accountants  | PCIE | = President's Council on Integrity and Efficiency |
| GAO   | = General Accounting Office                           | RIAF | = Regional Intergovernmental Audit Forums         |
| GFOA  | = Government Finance Officers Association             | SAO  | = state audit organizations                       |
| IGs   | = federal Inspectors General                          | SBOA | = state boards of accountability                  |
| ILAO  | = independent local auditor organizations             | SSOC | = state societies of CPAs                         |
| NASBA | = National Association of State Boards of Accountancy |      |   |



| <u>Recommendation No.</u>   | <u>Implementation Responsibility</u> |                                  |                                     | <u>Implementation Status</u>    |                                       |                             |
|---|--------------------------------------|----------------------------------|-------------------------------------|---------------------------------|---------------------------------------|-----------------------------|
|   | <u>Auditor</u>                       | <u>Auditee</u>                   | <u>Audit Oversight Organization</u> | <u>Specific Event Completed</u> | <u>Continuing Program Established</u> | <u>Limited or No Action</u> |
| <p>programs not included in the <i>Compliance Supplement</i> should be developed by the respective agencies and made available to auditors.</p> <p>11. <i>Questions and Answers on the Single Audit Provisions of OMB Circular A-102 "Uniform Requirements for Grants to State and Local Governments,"</i> published by the Office of Management and Budget, should be updated to reflect the issuance of Circular A-128.</p> |                                      |                                  | OMB (P)                             | X                               |                                       |                             |
| <p>12. A comprehensive study should be undertaken of the procurement of audit services and the way in which that process influences audit quality.</p>  |                                      |                                  | GAO (P)                             | X                               |                                       |                             |
| <p>13. A model request for proposal for audit services should be developed and widely distributed.</p>  | AICPA (S)                            | NIAF (P)<br>GFOA (S)<br>NSAA (S) | GAO (S)                             | X                               |                                       |                             |
| <p>14. The federal government's numerous rules that govern the conduct of single audit should be consolidated into a single rule. The rules should be expanded to incorporate certain applicable recommendations discussed in this report.</p>  |                                      |                                  | OMB (P)                             |                                 |                                       | X                           |
| <p>15. Compliance with the requirements for audits conducted for or on behalf of governments should be monitored by an Office of Inspector General at the federal level, the respective state auditor's office at the state level, or independent local auditors at the local level, if one exists.</p>   |                                      |                                  | IGs (P)<br>SAO (P)<br>ILAO (P)      |                                 |                                       | X                           |

|   |                       |                                   |   |
|---|-----------------------|-----------------------------------|---|
| 16. The guidelines for conducting audit report and working-paper reviews included in the <i>Federal Cognizant Agency Audit Organization Guidelines</i> should be expanded in order to assure comprehensive, consistent quality-control reviews.   | PCIE (P)              | X                                 |   |
| 17. The audit deficiency data collected during audit report and working-paper reviews should be categorized by type of deficiency and solutions sought for recurring and systemic problems.   | AICPA (S)             | PCIE (P)                          | X |
| 18. A positive enforcement program that includes reviews of audits of governmental units should be instituted in each state.  | SSOC (S)              | NASBA (P),<br>SBOA (P)            | X |
| 19. Auditors and audit organizations performing audits of governmental funds should be required to participate in a peer-review program that includes reviews of the governmental audits.   | Auditor (S)           | Governmental<br>Units (S)         | X |
| 20. The system for referring allegedly substandard audits to licensing authorities and professional organizations should be modified to lessen the paperwork required to initiate a referral, enable the investigation to be completed in less time, and provide feedback to the referring and other appropriate officials. | AICPA (P)             | NASBA (S)<br>SBOA (P)<br>PCIE (S) | X |
| 21. Guidelines should be developed and distributed to explain the referral process to organizations that would have a need to make referrals.   | AICPA (P)             | NASBA (S)<br>SBOA (P)             | X |
| 22. Membership in the National and Regional Inter-governmental Audit Forums should be opened to CPAs in public practice.  | NIAF (P),<br>RIAF (P) | X                                 |   |

| <i>Recommendation No.</i>  | <i>Implementation Responsibility</i> |                |                                     | <i>Implementation Status</i>    |                                       |                             |
|--|--------------------------------------|----------------|-------------------------------------|---------------------------------|---------------------------------------|-----------------------------|
|  | <i>Auditor</i>                       | <i>Auditee</i> | <i>Audit Oversight Organization</i> | <i>Specific Event Completed</i> | <i>Continuing Program Established</i> | <i>Limited or No Action</i> |
| 23. The dialogue and exchange of information among the various individuals involved in governmental auditing should be expanded.   | AICPA (P),<br>NSAA (P),<br>AGA (P)   | GFOA (P)       | PCIE (P)                            |                                 | X                                     |                             |
| 24. The governing bodies and committees of the AICPA should include individuals from the governmental audit community, and the governing bodies and committees of the governmental auditor and financial management associations should include CPAs in public practice. | AICPA (P),<br>NSAA (P),<br>AGA (P)   | GFOA (P)       |                                     |                                 | X                                     |                             |
| 25. Federal and state auditors should be included as coinstructors for the AICPA governmental accounting and governmental auditing CPE courses; complimentary registrations should be given to members of their organizations.   | AICPA (P),<br>SSOC (P)               |                |                                     |                                 | X                                     |                             |

