

## Public Sector Update

October 2018

# Proposed Changes to Government Auditing Standards

By Jeffrey C. Shaver, CPA, Partner

The U.S. Government Accountability Office (GAO) has proposed changes to *Government Auditing Standards* (GAS). These changes will be the first changes since 2011 and are designed to ensure the standards continue to meet the needs of the Federal, State and local government communities as well as the public that these bodies serve.

### Key New Audit Requirement

Among the proposed changes, the following significant new audit requirement was added to the 2017 exposure draft of the proposed new standards:

As part of an audit under *Government Auditing Standards*, if auditors become aware of waste or abuse that could be quantitatively or qualitatively material to the financial statements, auditors should perform additional audit procedures to ascertain the potential effect on the financial statements.

### Definitions: Waste and Abuse

Included in the guidance are these definitions:

#### **Waste**

Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources.

Importantly, waste can include activities that do not cover abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.

#### **Abuse**

Abuse is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

Because the determination of abuse is subjective, auditors are not required to perform procedures to detect abuse in financial audits. Auditors may discover that abuse is indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.

## Standby

As the exposure draft makes its way through the various governmental stakeholders as it reaches finality, we will provide our public sector clients and other readers with significant information which will, in all likelihood, affect their agencies and organizations.

## Contact Us

The Government Services Division of PKF O'Connor Davies, LLP is a leading tri-state area provider of accounting, auditing and advisory services for governmental agencies and related organizations. Please contact any of the individuals listed below or your client services team with questions or service requests:

Jeffrey C. Shaver, CPA, Partner (NY)  
[jshaver@pkfod.com](mailto:jshaver@pkfod.com)

David Gannon, CPA, Partner (NJ)  
[dgannon@pkfod.com](mailto:dgannon@pkfod.com)

Scott P. Oling, CPA, Partner (NY)  
[soling@pkfod.com](mailto:soling@pkfod.com)

Joseph Centofanti, CPA, Partner (CT)  
[jcentofanti@pkfod.com](mailto:jcentofanti@pkfod.com)

## About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by *Accounting Today*.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.