
SECTION 1000

Reporting

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1001 – MANAGEMENT REPRESENTATIONS

- .01 This section deals with the management representations that the auditor is required to obtain from current management as part of the audit, as described in sections 280 and 550. It covers the four general areas of representations: representations about the financial statements, internal control, financial management systems' substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and compliance with laws and regulations. In the AICPA standards, these representations are discussed in sections AU 333, AT 501, and AU 801. OMB audit guidance also contains guidance on management representations letters.
- .02 Written representations from management ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of those representations, and reduce the possibility of misunderstanding. Management representations are not a substitute for audit procedures. If a representation is contradicted by other audit evidence, the auditor should investigate the circumstances and consider the reliability of the representation. Also, the auditor should then consider whether it is appropriate to rely on other management representations. Management's refusal to furnish written representations is a scope limitation sufficient to preclude an unqualified opinion.
- .03 The specific representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. These representations apply to all the financial statements and all periods covered by the audit report. In addition to the representations given in the AICPA standards, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. Also, the representations given in the example representation letter in section 1001 A should be deleted if inapplicable or customized to the situation of the entity being audited.
- .04 The management representation letter should be obtained from the highest level of the audited entity. The officials who sign the management representation letter should be those who, in the auditor's view, are responsible for and knowledgeable, directly or through others, about the matters in the representation letter. These officials generally should be the head of the entity and the CFO, or equivalent. Additional management representation letters should be obtained from any component units for which separate reports are to be issued.
- .05 The management representation letter should be on the audited entity's letterhead. The representations should be as of a date no earlier than the date of

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the auditor's report—the end of fieldwork. To ensure the letter is ready in time, a draft letter generally should be provided to and discussed with management early in the audit and updated for circumstances found throughout the audit. Where management signs the letter after the end of fieldwork, the letter should state that the representations are as of the date of the audit report. If management signs the letter before the end of fieldwork, the auditor generally should obtain a separate letter to update the representations to the end of fieldwork. However, where the time difference is short, the auditor may update the representations orally and document the update.

- .06 Although the management representation letter generally should be addressed to the Comptroller General (at GAO) or the agency IG (and also to the independent external auditor, when appropriate), the audit team should consider having the entity deliver it directly to a member of the team to avoid any delays in receiving the letter.
- .07 Especially for large audited entities, management may need to specify a materiality threshold in the management representation letter, below which items would not be considered exceptions. The auditor should be satisfied that such a materiality threshold is so far below design materiality that even many items below this level would not, in the aggregate, approach design materiality. For example, a threshold that is 5 percent (or less) of design materiality may be sufficiently low. The materiality level may be different for different representations and would not apply to those representations not directly related to amounts in the financial statements (such as responsibility for the statements).

REPRESENTATIONS RELATING TO THE FINANCIAL STATEMENTS

- .08 Paragraph AU 333.06 lists management representations that are ordinarily included in a GAAS audit if applicable. These generally relate to management acknowledging its responsibility for the financial statements and its belief that the financial statements are fairly presented in conformity with U.S. generally accepted accounting principles; completeness of financial information; recognition, measurement, and disclosure; and subsequent events. Examples of additional representations that may be appropriate depending on an entity's business or industry are given in appendix B to AU 333. The auditor may review section AU 333 for items that could be added to the representations, many of which would have to be modified in the federal government environment. (OMB has added a representation dealing with intragovernmental transactions and their reconciliations for intragovernmental transactions and their reconciliations for agencies and components that are covered under the OMB audit requirements for federal agencies.)

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.09 Appendix B of AU 333 gives example language for the following situations (note: tailor for the circumstances applicable to the federal audit entity, as appropriate):

General

- Unaudited interim information accompanies the financial statements.
- The impact of a new accounting principle is not known.
- There is justification for a change in accounting principles.
- Financial circumstances are strained, with disclosure of management's intentions and the entity's ability to continue as a going concern.
- The possibility exists that the value of specific significant long-lived assets or certain identifiable intangibles may be impaired.
- The entity engages in transactions with special purpose entities.
- The work of a specialist has been used by the entity.

Cash

- Disclosure is required of compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements.

Financial instruments

- The value of debt or equity securities has declined.
- Management has determined the fair value of significant financial instruments that do not have readily determinable market values.
- There are financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk.

Receivables

- Receivables have been properly stated in the financial statements (for example, at estimated net realizable value).

Inventories

- Excess or obsolete inventories exist.

Deferred charges

- Material expenditures have been deferred.

Debt

- Short-term debt could be refinanced on a long-term basis, and management intends to do so.

Contingencies

- Estimates and disclosures have been made of environmental remediation liabilities and related loss contingencies.
- Agreements may exist to repurchase assets previously sold.

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Pension and postretirement benefits

- An actuary has been used to measure pension liabilities and costs.
- There is involvement with a multiemployer plan.
- Postretirement benefits have been eliminated.
- Employee layoffs that would otherwise lead to a curtailment of a benefit plan are intended to be temporary.
- Management intends to either continue to make or not make frequent amendments to its pension or other postretirement benefit plans, which may affect the amortization period of prior service cost, or management has expressed a substantive commitment to increase benefit obligations.

Sales

- There may be losses from sales commitments.
 - There may be losses from purchase commitments.
 - Nature of the product or industry indicates the possibility of undisclosed sales terms.
- .10 The auditor generally should consider the need for additional customizing of the example representation letter given in section 1001 A and for the additional representations in paragraph 1001.09. Many of the representations may have to be qualified, especially in an initial audit or in later audits where significant problems remain. For instance, where the example representation letter states that there are no violations of laws or regulations, the entity may need to add at the end of the statement, "except as follows:" and describe the violations.
- .11 In addition, the auditor generally should consider whether circumstances may require that additional descriptive items be included in the representation letter, especially as support for conclusions the auditor makes in the audit. This is important where the corroborating information that can be obtained by procedures other than inquiry is limited. For example, the letter should include descriptions of (1) the reasons for audited-entity-imposed scope limitations, such as lack of availability of certain records, (2) the basis for material liability estimates, key asset valuations, or the probability of contingencies, and (3) significant plans or intentions for the entity. For example, if the entity has a pension plan outside of the Civil Service Retirement System or the Federal Employees' Retirement System, an item should state that the entity does not plan to terminate the plan and that management believes the actuarial assumptions and methods used to measure pension liabilities and costs for financial reporting purposes are appropriate in the circumstances.

REPRESENTATIONS RELATING TO INTERNAL CONTROL

- .12 Internal control representations, when the auditor opines on internal control, are found in AT 501.44 and, for those related to fraud, in AU 316. These representations, where applicable, relate to management's (1) acknowledging its responsibility for internal control, (2) stating that management has assessed the effectiveness of its internal control and specifying the control criteria used, (3) stating management's assertion about the effectiveness of its internal control based on the control criteria, (4) stating that management has disclosed to the auditor all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and pointing out those that are material weaknesses (using the definition in the representation letter, which is the definition in AU 325), (5) stating whether there were any changes to internal control subsequent to the end of the reporting period, (6) acknowledging its responsibility for the design and implementation of programs and controls to prevent and detect fraud, (7) knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements, and (8) knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- .13 For items 2 and 3, entities may use criteria established under FMFIA and OMB Circular A-123 in their FMFIA internal control assessment. Standards in GAO's green book *Standards for Internal Control in the Federal Government* were established as standards for federal entities to follow. The November 1999 update to these standards (GAO/AIMD-00-21.3.1) incorporates concepts from the private sector guidance *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Entities should summarize in the representation letter any material weaknesses relating to financial reporting (including safeguarding), compliance (including budget), and performance measures controls. Example wording for the representations is given in section 1001 A for the case where management asserts that its internal control as of the date of the financial statements provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or required supplementary stewardship information would be prevented or detected on a timely basis. If there are material weaknesses, management should include a brief description of them in its representation letter and modify its assertion accordingly.

REPRESENTATIONS RELATING TO FINANCIAL MANAGEMENT SYSTEMS' SUBSTANTIAL COMPLIANCE WITH FFMLA REQUIREMENTS

- .14 FFMLA requires the auditor who audits a CFO Act agency to report whether the entity's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards (U.S. generally accepted accounting principles), and (3) the SGL at the transaction level. In order to report in accordance with FFMLA, the auditor should obtain representations from management as to the entity's systems' substantial compliance with these requirements.
- .15 The auditor should obtain representations that management takes responsibility for having its systems substantially comply with the FFMLA requirements, stating that it has assessed the systems' compliance, stating the criteria used, and asserting the systems' substantial compliance (or lack thereof). The criteria should be the requirements in OMB Circular A-127, Financial Management Systems (which incorporates the SGL, the JFMIP Federal Financial Management Systems Requirements documents, and other OMB circulars). These requirements are further described, including indicators of substantial compliance, in OMB's FFMLA implementation guidance for CFOs and IGs, referenced in OMB's audit guidance.

REPRESENTATIONS RELATING TO COMPLIANCE WITH LAWS AND REGULATIONS

- .16 AU 801.07 suggests that a representation relating to compliance with laws and regulations state that management has identified and disclosed to the auditor all laws and regulations that have a direct and material effect on the financial statements.
- .17 In addition, AT 601 deals with compliance attestation. The auditor is not required to follow AT 601 because it does not apply to an audit of financial statements. However, in situations in which the auditor believes additional representations regarding compliance may be needed, examples are given in AT 601.68.

EFFECT OF CHANGE IN MANAGEMENT ON REPRESENTATION LETTER

- .18 Sometimes management is reluctant to sign representations for periods when it did not manage the entity. The auditor should explain to management that by issuing the financial statements, it is making the assertions implicit in the financial statements. Management may wish to understand the transactions and controls

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supporting the financial statements, and the auditor should help it do so. Where a change in management is expected, the auditor may advise the new management to obtain representations from the old management about the period prior to the change.

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1001 A EXAMPLE MANAGEMENT REPRESENTATION LETTER

[Entity Letterhead]

[Date of auditor's report and completion of fieldwork]

The Honorable [name of Inspector General or Comptroller General]
[Inspector or Comptroller] General [of the United States]
[Name of agency] [or U.S. Government Accountability Office]
Washington, D.C.

[Also, include the independent external auditor as an addressee, when appropriate.]

Dear [name(s)]:

This letter is in connection with your audits of the [entity's] balance sheet as of September 30, 20X2 and 20X1, [or dates of audited financial statements] and the related statements of net costs, changes in net position, budgetary resources, financing, and custodial activity [if applicable], for the years then ended for the purposes of (1) expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, (2) reporting [or expressing an opinion] on the entity's internal control as of September 30, 20X2 [or date of latest audited financial statements], (3) reporting whether the [entity's] financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level as of September 30, 20X2, and (4) testing for compliance with applicable laws and regulations.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, matters are considered material if they involve \$X or more. Items also are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

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We confirm, to the best of our knowledge and belief, the following representations made to you during the audits (these representations are as of [date of completion of fieldwork], pertain to both years' financial statements, and update the representations we provided in the prior year):

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with U.S. generally accepted accounting principles.
2. The financial statements are fairly presented in conformity with U.S. generally accepted accounting principles.
3. We have made available to you all
 - a. financial records and related data;
 - b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies, such as congressional oversight committees] or summaries of actions of recent meetings for which minutes have not been prepared; and
 - c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. [An example accompanying schedule is included in section 595 C.] [If management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe that items XX and XX do not constitute misstatements because [description of reason]."]
6. The [entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.

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7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Guarantees under which the [entity] is contingently liable have been properly reported or disclosed.
9. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees, have been properly recorded and disclosed.
10. All intraentity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by the applicable OMB Bulletin.
11. There are no
 - a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency,
 - b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or
 - c. unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.
12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. No material events or transactions have occurred subsequent to September 30, 20X2 [or date of latest audited financial statements], that have not been properly recorded in the financial statements and stewardship information or disclosed in the notes.
14. We are responsible for establishing and maintaining internal control.

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15. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).
16. We have no knowledge of any fraud or suspected fraud affecting the [entity] involving:
- a. management,
 - b. employees who have significant roles in internal control, or
 - c. others where the fraud could have a material effect on the financial statements.
- [If there is knowledge of any such instances, they should be described.]
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the [entity] received in communications from employees, former employees, or others. [If there is knowledge of any such allegations, they should be described.]
18. Pursuant to 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act), we have assessed the effectiveness of the [entity's] internal control in achieving the following objectives:
- a. reliability of financial reporting—transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;
 - b. compliance with applicable laws and regulations—transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and
 - c. reliability of performance reporting—transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

[This item is not required if the auditor is not opining on internal control. Also, if the entity bases its internal control assessment on suitable criteria

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other than 31 U.S.C. 3512(c), (d), this item should cite the criteria used (for example, *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission).]

19. Those controls in place on September 30, 20X2 [or date of latest audited financial statements], and during the years ended 20X2 and 20X1, provided reasonable assurance that the foregoing objectives are met. [This item is not required if the auditor is not opining on internal control.]

[If there are material weaknesses, the foregoing representation should be modified to read:

Those controls in place on September 30, 20X2, and during the years ended 20X2 and 20X1, provided reasonable assurance that the foregoing objectives are met except for the effects of the material weaknesses discussed below or in the attachment.

or: Internal controls are not effective.

or: Internal controls do not meet the foregoing objectives.]

20. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses. [This item is not required if the auditor is not opining on internal control.]
21. There have been no changes to internal control subsequent to September 30, 20X2 [or date of latest audited financial statements], or other factors that might significantly affect it. [If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.] [This item is not required if the auditor is not opining on internal control.]
22. We are responsible for implementing and maintaining financial management systems that substantially comply with federal financial management systems requirements, federal accounting standards (U.S. generally accepted accounting principles), and the U.S. Government Standard General Ledger at the transaction level. [This item is not required if the entity is not subject to the Federal Financial Management Improvement Act of 1996.]

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23. We have assessed the financial management systems to determine whether they substantially comply with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB. [This item is not required if the entity is not subject to the Federal Financial Management Improvement Act of 1996.]
24. The financial management systems substantially complied with federal financial management systems requirements, federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of [date of the latest financial statements]. [This item is not required if the entity is not subject to the Federal Financial Management Improvement Act of 1996.]

[If the financial management systems substantially comply with only one or two of the above elements, this representation should be modified as follows:

As of [date of financial statements], the [entity's] financial management systems substantially comply with [specify which of the three elements for which there is substantial compliance (e.g., federal accounting standards and the SGL at the transaction level)], but did not substantially comply with [specify which of the elements for which there was a lack of substantial compliance (e.g., federal financial management systems requirements)], as described below (or in an attachment).]

[If the financial management systems do not substantially comply with any of the three elements, the following paragraph should be used instead:

As of [date of financial statements], the [entity's] financial management systems do not substantially comply with the federal financial management systems requirements.]

[If there is a lack of substantial compliance with one or more of the three requirements, identify herein or in an attachment all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance.]

25. We are responsible for the [entity's] compliance with applicable laws and regulations.

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26. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
27. We have disclosed to you all known instances of noncompliance with laws and regulations.

[Name of Head of Entity]
[Title]

[Name of Chief Financial Officer]
[Title]

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1002 – INQUIRIES OF LEGAL COUNSEL

- .01 This section provides guidance on procedures for the auditor to perform to obtain evidence that the financial accounting and reporting of contingencies¹ regarding litigation, claims, and assessments conform with U.S. generally accepted accounting principles (GAAP), as described in FAM sections 280 and 550. This section discusses the accounting and reporting guidance and audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments, and includes examples of a legal representation letter request, a legal representation letter response, including the Department of Justice's standard forms for legal contingencies, and management's schedule for summarizing the information contained in the legal response.

ACCOUNTING AND REPORTING GUIDANCE

- .02 Entity management is responsible for implementing policies and procedures to identify, evaluate, account for, and disclose litigation, claims, and assessments as a basis for the preparation of financial statements in conformity with GAAP.
- .03 Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS No. 5, Accounting for Liabilities of the Federal Government*, contains accounting and reporting standards for loss contingencies, including those arising from litigation, claims, and assessments.² The Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, clarifies GAAP related to claims to be

¹ Environmental and disposal liabilities are a type of contingency that is often a significant issue.

² SFFAS No. 7 has guidance for reporting claims for tax refunds. Rather than recognizing probable claims and disclosing other claims in the notes to the financial statements, SFFAS No. 7 indicates that other claims for refunds that are probable should be included as supplementary information.

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paid through the Treasury Judgment Fund.³ Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, also provides guidance for financial accounting and reporting for loss and gain contingencies for those entities following GAAP for nongovernmental entities. The definition of probable for legal contingencies is now essentially the same in Statement of Financial Accounting Standard No. 5 and SFFAS No. 5, since SFFAS No. 12 has amended the latter.

.04 A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. SFFAS Nos. 5 and 12 use the terms probable, reasonably possible, and remote to identify three areas within the range of potential loss, as follows:

- Probable—For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur. (For other contingencies, the future event or events are more likely than not to occur.)
- Reasonably possible—The chance of the future event or events occurring is more than remote but less than probable.
- Remote—The chance of the future event or events occurring is slight.

³ A permanent, indefinite appropriation, commonly known as the Judgment Fund, is available to pay final judgments, settlement agreements, and certain types of administrative awards against the United States when payment is not otherwise provided for. The Secretary of the Treasury certifies all payments from the fund. (See 31 U.S.C. 1304, Judgments, awards, and compromise settlements.) FASAB Interpretation No. 2 clarifies how federal entities should report the costs and liabilities arising from claims to be paid by the Judgment Fund and how the Judgment Fund should account for the amounts that it is required to pay on behalf of federal entities.

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- .05 A liability and the related cost for an estimated loss from a loss contingency should be recognized (accrued by a charge to income) when⁴
- a. a past event or exchange transaction has occurred,
 - b. a future outflow or other sacrifice of resources is probable, and
 - c. the future outflow or sacrifice of resources is measurable.
- .06 Disclosure of the nature of an accrued liability for loss contingencies, including the amount accrued, may be necessary for the financial statements not to be misleading. For example, if the amount recognized is large or unusual, disclosure should be considered. However, if no accrual is made for a loss contingency because one or more of the conditions in paragraph 1002.05 are not met, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss has been incurred. The disclosure should include the nature of the contingency, and an estimate of the possible liability or range of possible liability, if estimable, or a statement that such an estimate cannot be made. In addition, if the Judgment Fund might be involved in the payment of the possible loss, the federal entity involved in the litigation should discuss the Judgment Fund's role in a note to the financial statements.
- .07 Although management often relies on advice of legal counsel about the (a) likelihood of an unfavorable outcome and (b) estimates of the amount or range of potential loss for litigation, claims, and assessments, management is ultimately responsible for determining whether these contingencies are probable, reasonably possible, or remote. Management does this to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements. Thus, the Office of Management and Budget's (OMB) audit guidance requires CFO Act agency management to prepare a schedule summarizing legal contingencies including whether they are probable, reasonably possible, or remote, and whether (and in what amounts) they have been accrued or disclosed in the financial statements (see example summary schedule in FAM section 1002 D).

⁴ If the Judgment Fund will pay the claim, the entity should still recognize the liability and cost at this time. Once the claim is settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for payment, the entity should reduce the liability by recognizing an (imputed) financing source. Note that for Judgment Fund payments made under the Contract Disputes Act and in employment discrimination cases, the entity should instead establish a payable to reimburse the Judgment Fund.

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AUDIT PROCEDURES

- .08 The auditor should design procedures to test the entity's accounting for and disclosure of litigation, claims, and assessments. AU 337 (SAS 12) provides guidance on the procedures to identify litigation, claims, and assessments so that the auditor may obtain evidence that they are appropriately accounted for and disclosed. AU 9337 provides auditing interpretations of AU 337. OMB guidance for audits of federal financial statements also contains procedures for inquiries of legal counsel. (See FAM section 1002 A for example audit procedures.)
- .09 The auditor should obtain evidence relevant to the following factors with respect to litigation, claims, and assessments:
- a. The existence of a condition, situation, or set of circumstances indicating uncertainty as to the possible loss to an entity arising from litigation, claims, and assessments.
 - b. The period in which the underlying causes for legal action occurred.
 - c. The likelihood of an unfavorable outcome (probable, reasonably possible, or remote).
 - d. The amount or range of potential loss, if estimable.
- .10 The auditor should discuss with management the events or conditions that should be considered in the accounting for and reporting of litigation, claims, and assessments. The auditor should perform audit procedures to corroborate the information provided by management, including requesting that management send a legal letter request to the entity's legal counsel. An example audit program is in FAM section 1002 A. The audit procedures should be modified, as appropriate, for the particular entity.
- .11 A letter from legal counsel to the auditor, in response to a legal letter request from management to legal counsel, is the auditor's primary means of corroborating the information furnished by management concerning the accuracy and completeness of litigation, claims, and assessments. The legal letter request may include a list of pending or threatened litigation, claims, and assessments or a request by management that legal counsel prepare the list. The legal letter request also may include a list of unasserted claims and assessments considered probable of assertion, and that, if asserted, would have at least a reasonable possibility of an unfavorable outcome, to which legal counsel has devoted substantive attention on the entity's behalf in the form of legal consultation or representation (or a statement that management is not aware of

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any matters meeting the criteria). Legal counsel then would supplement management's information about those unasserted claims and assessments, including an explanation of matters where his or her views differ from those expressed by management in the legal letter request. In the federal government, where the general counsel may be part of management, legal counsel may instead provide the list of unasserted claims or assessments meeting the above criteria. The legal letter request should also include a request for legal counsel to make a statement that he or she will advise management about unasserted claims and assessments that should be considered for disclosure. (See the example request and response in FAM sections 1002 B and 1002 C.)

Timing of Legal Letter Request and Responses

- .12 The audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments should be performed on a timely basis to give priority to the resolution of potential problem areas and to complete other procedures. To meet deadlines, the auditor, entity management, and legal counsel should coordinate the timing of legal letter requests, responses (including interim responses), and related management schedules. The auditor and the entity management should consider the due dates for providing legal letter responses for the entity financial statements as well as for the U. S. Government's Consolidated Financial Statements. (OMB sometimes provides these dates for the governmentwide audit.) The due dates should enable the auditors to timely complete their work, including the potential need for management to inquire of Department of Justice legal counsels on a case-specific basis.
- .13 In addition, when an entitywide audit team uses the work of entity component audit teams, the entitywide and component audit teams should coordinate the timing of legal letter requests, responses, and management schedules and consider the due dates for the component financial statements as well as the entitywide financial statements. The entitywide team generally should receive copies of the component letters.
- .14 The legal counsel's response should include matters that existed at the balance sheet date and through the end of fieldwork. The effective date (the latest date covered by the legal counsel's review) should be as close as feasible to the completion of fieldwork. If the effective date is substantially in advance of the end of fieldwork (for example, 2 weeks), the auditor should contact the legal counsel for an updated response. To avoid this situation, the legal letter request should clearly specify the period the legal counsel's response should cover and the date the auditor should receive the response.

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- .15 To assist the auditor in completing the review of legal matters in a timely manner (and to assist management in preparing the financial statements), the auditor may ask management to request legal counsel to submit a preliminary or interim response covering matters that existed at the balance sheet date and through a point in time reasonably before the end of fieldwork so that a preliminary evaluation of the significance of material legal matters can be made. Then, the legal counsel should submit a final or updated response covering matters through the end of fieldwork. The updated response generally should contain only changes or a statement indicating there are no changes from the interim response. (See FAM section 1002 B for an example legal letter request that includes requests for interim and updated responses from legal counsel.)

Determining a Materiality Level

- .16 The auditor may limit the inquiry to matters that are considered individually or collectively material to the financial statements, provided the entity and the auditor have reached an understanding and agreement on the materiality level. The materiality level, if used, should be documented in the legal letter request and in the response.
- .17 In determining a materiality level for the legal letter, the auditor should set the level sufficiently low that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with (1) other cases not included in the letter, (2) all other types of contingencies, (3) all other items that would not be adjusted because they are judged immaterial (unadjusted misstatements), (4) all other amounts in the financial statements that would not be tested directly because they were judged to be immaterial, and (5) all other items resolved on the basis of materiality considerations. For example, 2.5 percent of design materiality is used for individual cases in the U.S Government's Consolidated Financial Statements and 5 percent of design materiality is used for the aggregate of all cases.
- .18 In aggregating cases, the auditor and the entity may use two levels of aggregation. First, similar cases (such as employment discrimination cases, harbor maintenance fee cases, spent nuclear fuel cases, or military promotion board challenges) should be aggregated and treated as a group and compared with the individual materiality level. The aggregation generally should include a list of the individual cases that are aggregated and a discussion of the items of information requested to be included in the legal letter (see FAM sections 1002 B and 1002 C) for the aggregated cases. Second, all cases not included in the legal letter individually or as part of a group of similar cases should be aggregated. A higher materiality level may be used for such an aggregation; however, this higher materiality level should be set sufficiently low that the cases not included in the

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legal letter would not be material to the financial statements taken as a whole when aggregated with the other items listed in the previous paragraph.

- .19 Where the entity engages more than one legal counsel, the auditor should exercise caution so that matters considered not material individually would not, when aggregated, exceed the materiality limit. In addition, when separate legal representation letters are issued on individual components/bureaus of a consolidated entity because of individual component audits, the auditor may determine materiality levels for each component/bureau.

Legal Counsels from Whom Information Should Be Requested

- .20 Most federal agencies have a general counsel who has primary responsibility for and knowledge about the entity's litigation, claims, and assessments. The auditor should request entity management to send a legal letter request to the general counsel. In addition, the auditor should ask the management and/or general counsel whether the entity used outside legal counsel whose engagement may be limited to particular matters (e.g., specific litigation).
- .21 In the federal government, the main legal counsel outside of the entity is the Department of Justice.⁵ The entity's management, its legal counsel, or the auditor may consult with Justice as well as other outside legal counsel to assure completeness and accuracy of the presentation of matters related to litigation, claims, and assessments. Such consultation may include requesting a list of pending litigation, claims, and assessments from Justice or other outside legal counsel, or discussion of specific cases.
- .22 The legal response should cover all litigation, claims, and assessments pertaining to the federal reporting entity, including matters handled by Justice and other outside legal counsel on behalf of the entity. If the general counsel has overall responsibility for handling and evaluating litigation, claims, and assessments, his or her evaluation and responses ordinarily would be considered adequate.

⁵ The Accounting and Auditing Policy Committee (AAPC) guidance (Technical Release No. 1) clarifies FASAB Interpretation No. 2, with respect to the Department of Justice's role related to legal letters in cases in which Justice's legal counsels are handling legal matters on behalf of other federal reporting entities. The letter from the entity's general counsel may provide sufficient evidence for the auditor. If the auditor determines that additional evidence is needed about a specific case, the auditor may request entity management and legal counsel to send a legal letter request to Justice, directed to the lead Justice legal counsel handling the case, asking that person to provide a description and evaluation directly to the auditor.

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However, evidential matter obtained from inside legal counsel is not a substitute for information that outside legal counsel refuses to furnish to the auditor.

- .23 Where there is no general counsel and management has not consulted legal counsel, the auditor should obtain a written representation from management that legal counsel has not been consulted. Such representation may be incorporated as an item in the management representation letter. (See FAM sections 550 and 1001.) (An example item is: "We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with SFFAS No. 5. We have not consulted legal counsel concerning litigation, claims, or assessments.")

Evaluation of Responses

- .24 Written responses from legal counsel will vary considerably in the scope of information provided and in the opinion expressed. In preparing the responses, legal counsels should consider the guidance contained in the American Bar Association's *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (ABA Policy Statement) (included in its entirety in AU 337 C). If legal counsel does not follow the ABA Policy Statement in responding to the auditor, the legal counsel's response nevertheless should meet the requirements of AU 337.
- .25 The response should cover all components included in the financial statements being audited. Legal counsel generally should indicate the disposition of cases included in the prior year's letter that are no longer contingencies.
- .26 The auditor should evaluate each response in terms of sufficiency as evidence and consider (a) the possible limitations on the scope of legal counsel's responses and (b) the lack of sufficient opinion on the resolution of a case. AU 9337 provides guidance in evaluating legal counsel's responses. The auditor also should consider the legal counsel's response in light of any other information that comes to the auditor's attention.

Possible Limitations on the Scope of Legal Counsel's Responses

- .27 When legal counsel limits his/her responses, the auditor should determine whether the limitation affects the auditor's report. A legal counsel may appropriately limit responses to certain matters; for example, to matters that (a) the legal counsel has given substantive attention to in the form of legal consultation or representation and (b) are considered individually or collectively material to the financial statements, provided the entity and the auditor have

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reached an understanding on materiality levels. These limitations are acceptable and not limitations on the scope of the audit.

- .28 The following are examples of limitations on legal counsel's responses that are not acceptable to the auditor and that would ordinarily result in a scope limitation:
- a. Legal counsel refuses to furnish the requested information. When legal counsel refuses to furnish the information requested in the legal letter request, the auditor should consider this matter as a scope limitation sufficient to preclude an unqualified opinion.
 - b. Legal counsel excludes matters requested. The legal counsel's responses may not address all information requested. The auditor should compare legal counsel's response with the legal letter request and determine whether legal counsel has addressed all the information requested. If legal counsel excluded any of the requested matters, the auditor should obtain responses for those matters from legal counsel. If the auditor is unable to obtain all the information needed, the auditor should consider this a scope limitation that could be sufficient to preclude an unqualified opinion.
 - c. Legal counsel indicates that certain information is being withheld due to attorney-client privilege. Under the American Bar Association (ABA) Code of Professional Responsibility, legal counsel is required to preserve the confidences and secrets of the client. Legal counsel may disclose confidences to the auditor only with the consent of the client. If the legal letter request is prepared in accordance with AU 337, the auditor should expect that legal counsel would be responsive; otherwise the scope of the audit would be restricted. (On the other hand, explanatory language in the legal letter request or in legal counsel's response emphasizing that management or legal counsel does not intend to waive attorney-client privilege or attorney work-product privilege does not result in a scope limitation.)

Lack of Sufficient Opinion on the Resolution of a Case

- .29 The following are examples of the legal counsel's responses that lack sufficient opinion on the resolution of a case.
- a. Uncertainties. A legal counsel may be unable to respond concerning the likelihood of an unfavorable outcome of litigation, claims, and assessments or the amount or range of potential loss, because of inherent uncertainties. In these circumstances, the auditor ordinarily will conclude that the financial statements are affected by an uncertainty concerning the outcome of a future

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event, which is not susceptible to reasonable estimation. The auditor should follow the guidance in FAM section 580 for reporting on uncertainties.

- b. Unclear responses. Legal counsels sometimes use general terms to indicate their evaluation of the outcome of a case. The ABA Policy Statement states that legal counsel may, in the appropriate circumstances, communicate to the auditor his/her view that an unfavorable outcome is "probable" or "remote." The legal letter responses may include phrases that mean remote or probable. The phrases below are examples of opinions that provide sufficient clarity that the likelihood of an unfavorable outcome is remote:

- "We are of the opinion that this action will not result in any liability to the entity."
- "We believe that the plaintiff's case against the entity is without merit."

The following are examples of opinions that indicate significant uncertainty as to whether the entity will prevail:

- "In our opinion, the entity has a substantial chance of prevailing in this action." (A "substantial chance," a "reasonable opportunity," and similar terms indicate more uncertainty than an opinion that the entity will prevail.)
- "It is our opinion that the entity will be able to assert meritorious defenses to this action." (The term "meritorious defenses" indicates that the court will not summarily dismiss the entity's defenses; it does not indicate legal counsel's opinion that the entity will prevail.)

- .30 To avoid unclear and incomplete responses, the auditor generally should ask management to request legal counsel to use Justice's standard forms to describe legal contingencies (see pages 1002 C-4 to 6 for examples of these forms). When legal counsel does not indicate whether the unfavorable outcome is probable or remote, management and the auditor should conclude that the outcome is reasonably possible and the case should be considered for disclosure. (Management, with legal counsel's advice, determines whether cases are probable, reasonably possible, or remote, to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements.)
- .31 If the auditor is not certain about the legal counsel's evaluation, the auditor should discuss the matters with the legal counsel and entity management (and document the oral discussion) and/or obtain written clarification in a follow-up letter. Sometimes legal counsel may give a clearer indication of likelihood orally. If legal counsel is unable to give a clear evaluation of the likelihood of an

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unfavorable outcome, management should disclose the uncertainty and the auditor should consider the uncertainty's effect on the audit report.

Example Legal Letter Request

- .32 The legal letter request, which the auditor may assist management to draft, should be on the audited entity's letterhead, signed by the Chief Financial Officer (CFO), or equivalent, and request a reply directly to the auditor and a copy to management by specified due dates. FAM section 1002 B shows an example legal letter request that includes requests for interim and updated responses from legal counsel and matters that should be covered in the letter.

Example Legal Counsel's Responses and Management's Schedule

- .33 The General Counsel should respond on General Counsel letterhead to the auditor with a copy to management by the agreed-upon due dates. The response should indicate that it is provided for the auditor's use in connection with the audit.
- .34 FAM section 1002 C shows an example of a legal counsel response, including the legal representation letter and Justice's legal contingency standard forms for each case or group of cases, respectively. Justice's forms (pages 1002 C-4 to 6) are on Justice's website: <http://www.usdoj.gov/civil/forms/forms.htm>.
- .35 FAM section 1002 D shows an example of management's schedule that documents how the information contained in the legal counsel's responses was considered in preparing the financial statements. Management should include each case discussed in the legal letter and indicate (1) the amount accrued for probable cases and (2) note disclosure for reasonably possible cases, probable cases where the amount cannot be estimated, and probable cases where a range of amounts above the accrued amount is estimated. The electronic templates for FAM sections 1002 C (pages 1002 C-1 to 3) and 1002 D are on OMB's website: <http://www.whitehouse.gov/omb/bulletins/index.html>.

PRACTICE AIDS

- .36 The following practice aids are appended:
Section 1002 A – Example Audit Procedures;
Section 1002 B – Example Legal Letter Request;
Section 1002 C – Example Legal Representation Letter, including Justice's Example Legal Contingencies Forms; and
Section 1002 D – Example Management Summary Schedule.

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Reporting

1002 A – EXAMPLE AUDIT PROCEDURES FOR INQUIRIES OF LEGAL COUNSEL

Entity _____

Period of financial statements _____

Job code _____

Example Audit Procedures	Done by/date	W/P ref
I. Testing Procedures 1. Ask management about the entity's policies and procedures for identifying, evaluating, and accounting for litigation, claims, and assessment.		
2. Obtain from management a description and evaluation of litigation, claims, and assessments existing as of the balance sheet date and through the date of management's response (which should be near the end of fieldwork). (This may instead be obtained from the entity's legal counsel.)		
3. To determine whether an outside legal counsel is performing services for the entity, inquire of management whether outside legal counsel has been used by the entity and matters handled. Ask management for a list of pending litigation, claims, and assessments from the Department of Justice and/or examine correspondence and invoices from other outside legal counsel (e.g., for legal fees), if any.		

Reporting**1002 A – Example Audit Procedures for Inquiries of Legal Counsel**

Example Audit Procedures	Done by/date	W/P ref
4. Ask whether the entity has changed its general counsel or outside legal counsel or the general counsel or outside legal counsel has resigned or has indicated an intention to resign. If so, determine if there are matters that may affect the financial statements. For example, in appropriate circumstances, a legal counsel may be required by the ABA Code of Professional Responsibility to resign the engagement if the legal counsel's advice concerning disclosures is disregarded by the entity.		
5. To identify litigation, claims, and assessments read minutes of management meetings, contracts, loan agreements, leases, and correspondence from other government entities and discuss pertinent items with management.		
6. If information comes to the auditor's attention that may indicate a potential contingency with respect to litigation, claims, or assessments that may require adjustment to or disclosure in the financial statements, discuss with the entity its possible need to consult legal counsel. Depending on the severity of the matter, refusal by the entity to consult legal counsel in those circumstances may result in a scope limitation. Consider the effect of such a limitation on the auditor's report.		

Reporting**1002 A – Example Audit Procedures for Inquiries of Legal Counsel**

Example Audit Procedures	Done by/date	W/P ref
7. Request entity management to send a legal letter request to the general counsel asking counsel to respond directly to the auditor. (Obtain a copy of the legal letter request.) Consider whether to also request legal letters from any outside legal counsel. The legal letter should cover litigation, claims, and assessments pertaining to the reporting entity, including matters handled by the Department of Justice or other outside legal counsel. (See Sections 1002 B for an example legal letter request.) Coordinate with management and legal counsel to <ul style="list-style-type: none">• determine the timing of legal letter requests and responses and related management's summary/schedules of information contained in legal responses and• determine a materiality level to be included in the legal representation letter.		
8. Read the legal letter responses and management's schedules to identify litigation, claims, and assessments.		
9. Compare the description and evaluation of the current year's legal letter responses to the prior year's audit documentation. If this comparison indicates that certain legal matters in the prior year are no longer included, discuss these matters with management or legal counsel to obtain an understanding of the reasons for the changes.		
10. Determine whether the information in the legal representation letter is consistent with management's schedule summarizing the information in the letter and related supporting documentation.		
11. Discuss with legal counsel if the information obtained is not complete, clear, or consistent.		
12. Evaluate legal counsel's responses and determine the effects of the responses on liabilities and related note disclosures in the financial statements and on the auditor's report.		

Reporting**1002 A – Example Audit Procedures for Inquiries of Legal Counsel**

Example Audit Procedures	Done by/date	W/P ref
13. If a response date is substantially in advance of the audit report date, for example, earlier than 2 weeks prior to date of auditors' report, obtain a written or oral update response. (The longer the period between the legal letter and the audit report date, the more important a written update becomes.)		
II. Reporting Procedures Obtain a representation from management in the management representation letter (see FAM sections 550 and 1001) that the entity has disclosed all unasserted claims that legal counsel has advised are probable of assertion that, if asserted, would have at least a reasonable possibility of an unfavorable outcome and must be disclosed. 1. Discuss the description and evaluation of litigation, claims, and assessments obtained with management to determine if, subsequent to the date of legal counsel's response, there have been any changes in status of the matters, changes in management's evaluation of the outcome, or additional matters to be considered.		
2. If there are significant changes in the status of the matters or new matters, obtain a written confirmation or updated response from legal counsel.		
3. Have management include in the management representation letter representations related to contingencies and determine if they are appropriately accrued and disclosed as required by SFFAS No. 5, as amended. If management has not consulted legal counsel, obtain a written representation from management that legal counsel has not been consulted. This representation may be incorporated in the management representation letter (see FAM sections 550 and 1001).		

Reporting**1002 A – Example Audit Procedures for Inquiries of Legal Counsel**

Example Audit Procedures	Done by/date	W/P ref
4. Read the entity's financial statements and notes and a. consider the adequacy of financial statement disclosure for contingencies with respect to litigation, claims, and assessments;		
b. determine if the financial statement disclosures for contingencies with respect to litigation, claims, and assessments are prepared in accordance with the OMB guidance on form and content of agency financial statements; and		
c. for federal entities involved in litigation for which the Judgment Fund is a likely source of judgment or settlement, determine if a note to the financial statements discusses the Judgment Fund's role in the payment of a possible loss, as required by FASAB Interpretation No. 2, <i>Accounting for Treasury Judgment Fund Transactions</i> .		
5. Document conclusions reached concerning the accounting for and disclosure of litigation, claims, and assessments, determine if adjustments are necessary, and consider whether modification of the auditor's report is appropriate (see FAM section 580).		

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Reporting

1002 B – EXAMPLE LEGAL LETTER REQUEST

[Audited Entity Letterhead]

Date: [date]

To: General Counsel

From: Chief Financial Officer [signed]

Subject: [Auditor 's] Audits of the Fiscal Year 20X1 and 20X0 Financial Statements

Pursuant to 31 U.S.C. 3515, [Auditor name] is performing audits of the financial statements of [entity] as of and for the fiscal years ended September 30, 20X1, and 20X0. In performing audits of government entities, auditors comply with *Government Auditing Standards*, issued by the Comptroller General of the United States (the "yellow book"). For financial statement audits, *Government Auditing Standards* incorporate the fieldwork and reporting standards of the American Institute of Certified Public Accountants (AICPA) and the Statements on Auditing Standards that interpret them. Consistent with the procedures contained in AU 337 of the AICPA's *Codification of Statements on Auditing Standards*, [Auditor] has inquired about litigation, claims, and assessments to obtain evidence as to the financial accounting and reporting of such matters with respect to the financial statements. The purpose of this letter is to request your assistance in responding to that inquiry. The American Bar Association *Statement of Policy Regarding Lawyers' Responses to Auditors' Request for Information* (December 1975) provides relevant guidance for the lawyer 's response to the auditor 's request.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5, [entity] reports certain information in its financial statements and notes concerning contingent liabilities for litigation, claims, and assessments. We request that you provide [Auditor] (with a copy to me) with information on matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation. You should furnish an interim response by [agreed-upon date], including matters that existed as of September 30, 20X1, and from that date through at least [interim date]. You should furnish an updated response by [agreed-upon date], that is effective no earlier than [agreed-upon date], that includes any changes from the interim response or furnish a statement that there are no changes.

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1002 B – Example Legal Letter Request

Include any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation, even those cases for which you believe the Judgment Fund or some financing source other than [entity]'s budgetary resources will pay any potential loss. Under generally accepted accounting principles, these amounts should be included as liabilities or disclosure items in the [entity]'s financial statements. Cases similar in nature should be aggregated where appropriate. It would be helpful if you could list the matters in order of the amount of potential loss, starting with the largest.

Pending or Threatened Litigation (excluding unasserted claims)

We and [Auditor] have determined that any matters for which the amount of potential loss exceeds \$XX, individually or in the aggregate, could be material to the financial statements. Please provide to [Auditor] the information described below about pending or threatened litigation where the amount of potential loss exceeds \$XX:

1. The nature of the matter. Include a description of the case or cases and amount claimed, if specified.
2. The progress of the case to date.
3. The government's response or planned response (for example, to contest the case vigorously or to seek an out-of-court settlement).
4. An evaluation of the likelihood of unfavorable outcome. Please categorize likelihood as probable (an unfavorable outcome is likely to occur), reasonably possible (the chance of an unfavorable outcome is less than probable but more than remote), or remote (the chance of an unfavorable outcome is slight).
5. An estimate of the amount or range of potential loss, if one can be made, for losses considered to be probable or reasonably possible.
6. The name of the [entity]'s legal counsel handling the case and names of any outside legal counsel/other lawyers representing or advising the government in the matter (Department of Justice or outside law firms).

Unasserted Claims and Assessments

[If legal counsel is a part of management use this paragraph.] Please provide the following information for all unasserted claims and assessments that you consider to be probable of assertion and which, if asserted, would have at least a reasonable possibility (more than remote) of an unfavorable outcome in an amount over \$XX, individually or in the aggregate, involving matters to which you have devoted substantive attention.

[If the legal letter request will be sent to a legal counsel that is not part of management, such as an outside legal counsel, use this paragraph.] We have

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1002 B – Example Legal Letter Request

provided an attachment to this request that lists the unasserted claims and assessments that we believe are probable of assertion and which, if asserted, would have at least a reasonable possibility (more than remote) of an unfavorable outcome in an amount over \$XX, individually or in the aggregate, involving matters to which you have devoted substantive attention. Please provide the following information for each matter and for any additional matters that you believe meet these criteria.

1. A description of the nature of the matter.
2. The government's planned response if the claim is asserted.
3. An evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable (likely to occur) or reasonably possible (less than probable but more than remote).)
4. An estimate of the amount or range of potential loss, if one can be made.

Please specifically confirm to [Auditor] that our understanding of the following is correct: Whenever, in the course of performing legal services for us, with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will (1) advise us of your conclusion and (2) consult with us concerning the question of such disclosure and the applicable requirements of SFFAS No. 5, as amended.

Please separately identify any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [entity] in the form of legal consultation or representation for which you believe another government entity will be responsible for any potential liability.

Please specifically identify the nature of and reasons for any limitations on your response to this request.

Please address your reply to [Auditor], and contact him/her at (phone number), when your reply is available for pick up, and send a copy of your reply to me. Do not hesitate to contact me or [Auditor] if you have any questions about this request.

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Reporting

1002 C – EXAMPLE LEGAL REPRESENTATION LETTER

[General Counsel Letterhead]

[Date]

[Auditor]

[Title]

[Agency or Firm Name]

[City]

Subject: Legal Response in Connection with the 20X1 and 20X0 Financial Statement Audits of [entity name]

Dear [Auditor]:

As General Counsel of [entity], I am writing in response to the legal letter request from the [entity]'s Chief Financial Officer (CFO) dated [date], in connection with the audit of [entity]'s financial statements as of and for the fiscal years ended September 30, 20X1 and 20X0. [In an interim response, add "I will, as further requested by the CFO, provide an updated response by [date]."]

I call your attention to the fact that as General Counsel for [entity], I have general supervision of [entity]'s legal affairs. [If the general legal supervisory responsibilities of the person signing the letter are limited, set forth a clear description of those legal matters over which such person exercises general supervision, indicating exceptions to such supervision and situations where primary reliance should be placed on other sources.] In such capacity, I have reviewed litigation and claims threatened or asserted involving [entity] and have consulted with outside legal counsel about them when I have deemed appropriate.

Subject to the foregoing and to the last paragraph of this letter, I advise you that since [insert date of beginning of fiscal year period under audit] neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to, or represented [entity] in connection with loss contingencies [over the amount of (state materiality level agreed to with auditor and stated in request letter)] coming within the scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

[Describe litigation and claims that fit the foregoing criteria as follows (it is recommended that general counsels use the attached Department of Justice forms

Reporting
1002 C – Example Legal Representation Letter

(one for pending or threatened litigation, another for unasserted claims) to describe the cases):]¹

Pending or Threatened Litigation (excluding unasserted claims)

1. Nature of the matter (include a description of the case or cases and amount claimed, if specified).
2. Progress of the case to date.
3. Current or intended response.
4. Evaluation of the likelihood of an unfavorable outcome (categorize likelihood as probable, reasonably possible, or remote).
5. Estimated amount or range of potential loss, if determinable, for losses considered to be probable or reasonably possible.
6. Name of [entity]'s legal counsel handling the case and names of any outside legal counsel representing or advising the government in the matter.

With respect to matters that have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the ABA Statement of Policy, I advise you, subject to the last paragraph of this letter, as follows:

Unasserted Claims and Assessments (considered to be probable of assertion and which, if asserted, would have at least a reasonable possibility of an unfavorable outcome)

1. Nature of the matter.
2. Intended response if claim would be asserted.
3. Evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable or reasonably possible.)
4. Estimated amount or range of potential loss, if determinable.

The information set forth herein is [(as of the date of this letter) or (as of (insert date), the date on which we commenced our internal review procedures for purposes of preparing this response)], except as otherwise noted. [If an interim response, add "Upon submission of the updated response, which is due on [date]," I disclaim any undertaking to advise you of changes that, thereafter, may be brought to my attention or the attention of our lawyers over whom I exercise general legal supervision.

This response is limited by, and in accordance with, the ABA *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975); without limiting the generality of the foregoing, the limitations set forth in such statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any

¹ It is expected that cases or matters will be aggregated where appropriate.

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1002 C – Example Legal Representation Letter

"loss contingencies" is qualified in its entirety by Paragraph 5 of the statement and the accompanying commentary (which is an integral part of the statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy, this will confirm as correct [entity]'s understanding that whenever, in the course of performing legal services for [entity] with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, I have formed a professional conclusion that the entity must disclose or consider disclosure concerning such possible claim or assessment, I, as a matter of professional responsibility to [entity], will so advise [entity] and will consult with [entity] concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5. [Describe any other or additional limitation as indicated by Paragraph 4 of the statement.]

Sincerely yours,

[Name of General Counsel]
[Title]

cc: Chief Financial Officer

SUGGESTED DEPARTMENT OF JUSTICE FORM

PENDING OR THREATENED LITIGATION

AGENCY/COMPONENT: _____

**Amount of potential loss exceeds
the agency/component materiality
threshold of:** _____

1. **Case name.** *(Include case citation, case number, and other names by which the case or group of cases is commonly known.)*

2. **Nature of matter.** *(Include a description of the case or cases and amount claimed, if specified.)*

3. **Progress of the case.**

4. **The government's response or planned response.** *(For example, to contest the case vigorously or to seek an out-of-court settlement.)*

5. **An evaluation of the likelihood of unfavorable outcome.** *(Choose one.)*

_____ PROBABLE – An unfavorable outcome is likely to occur.

_____ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

_____ REMOTE – the chance of an unfavorable outcome is slight.

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1002 C – Example Legal Representation Letter

6. **An estimate of the amount or range of potential loss** *(if one can be made, for losses considered to be probable or reasonably possible).*

7. **The name and phone number of the government attorney handling the case** *(and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)*

8. **The sequence number** *(based on the total number of pending or threatened cases in litigation, claims, and assessments the agency/component is submitting.*
e.g., Number ___ of ___)
(#) (total)

SUGGESTED DEPARTMENT OF JUSTICE FORM

UNASSERTED CLAIMS AND ASSESSMENTS

AGENCY/COMPONENT: _____

**Amount of Potential Loss Exceeds the
agency/component materiality threshold of:** _____

1. **Name of Matter.** *(Include name by which the matter is commonly known.)*
2. **Nature of the Matter.** *(Include a description of the matter.)*
3. **The Government's Planned Response** *(if the claim is asserted).*
4. **An Evaluation of the likelihood of Unfavorable Outcome.** *(Choose one.)*
_____ PROBABLE – (An unfavorable outcome is likely to occur.)
_____ REASONABLY POSSIBLE – (the chance of an unfavorable outcome is less than probable but more than remote.)
5. **An Estimate of the Amount or Range of Potential Loss** *(if one can be made, for losses considered to be probable or reasonably possible).*
6. **The Name and phone number of the Government Attorney Handling the Matter** *(and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter).*
7. **The Sequence Number** *(based on the total number of Unasserted Claims and Assessments the agency/component is submitting. e.g., Number ___ of ___).*
(#) (total)

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1002 D - Example Management Summary Schedule

Management should prepare this schedule (or equivalent) summarizing the information contained in the legal letters. In particular, management should conclude as to the likelihood of loss about each case to determine whether an amount should be recorded in the financial statements and/or if note disclosure is necessary for the financial statements to conform with GAAP. Although most information comes directly from the legal letter, the financial staff should add the information in the last two columns to indicate the disposition of each case in the financial statements.

**Management's Schedule of Information Contained in Legal Letter Responses
for Financial Reporting Purposes**

Amounts in thousands

1	2	3	4	5			6	7
Reference key	Amount claimed	Name of case/ related cases	Likelihood of loss	Amount or range of potential loss			Disposition in financial statements	
				(a) P	(b) R/P	(c) Upper	Amt. recorded	Note disclosure
insert rows here as necessary			***insert rows here as necessary***			***insert rows here as necessary***		
TOTALS	\$ -			\$ -	\$ -	\$ -	\$ -	\$ -

Guidance for Preparation:

1. Matters should be listed on this schedule in order of the amount or range of potential loss, starting with the largest.
2. The level of aggregation should generally be at the same level as in the general counsel's letter. However, there may be instances where the level of aggregation is too high to be able to prepare this schedule in a way that is meaningful. In such cases, the CFO should work with legal counsel to provide further disaggregation of dissimilar cases. There may also be other instances in which a higher level of aggregation is desirable. CFOs should use professional judgment, considering the purpose of this schedule when determining the level of aggregation.

Reporting**1002 D - Example Management Summary Schedule**

Column:

- 1 Reference key:** Page number of legal representation letter obtained from General Counsel discussing the case, or other reference information.
- 2 Amount claimed:** Amount claimed in the litigation, claim, or assessment (if specified)
- 3 Name of case or related cases:** Where appropriate, provide name of case or aggregated cases which meet materiality threshold.
- 4 Likelihood of loss:** Indicate management's evaluation of the likelihood of loss on individual or aggregated cases.
Options: **P:** probable (loss likely to occur);
 R/P: reasonably possible (the chance of loss is less than probable, but more than remote); or
 R: remote (the chance of loss is slight).
- 5 Amount or range of potential loss:**
Options: **5a:** Probable (P) -- Provide single estimate or lower end of range, if known. Enter "U" if unknown. (Also provide column totals.)
 5b: Reasonably possible (R/P) -- Provide single estimate or lower end of range, if provided. Enter "U" if unknown. Also provide column totals.
 5c: If amounts in P or R/P are ranges, provide upper end of range; otherwise, enter "n/a."
- 6 Disposition in financial statements - amount recorded:** If applicable, provide corresponding dollar amount recorded as a liability in the financial statements. (Also provide column totals.)
- 7 Disposition in financial statements - note disclosure:** If applicable, indicate by note reference number where case information is separately disclosed or included in amounts disclosed in notes to the financial statements. (Also provide column totals.)

Reporting

1003 - FINANCIAL STATEMENT AUDIT COMPLETION CHECKLIST

Entity: _____

Job Code: _____

Principal Report: _____

Other Reports (including management letters and testimonies): _____

INSTRUCTIONS

- .01 This checklist is a tool to help auditors of financial statements conform with U.S. generally accepted government auditing standards (GAGAS), OMB audit guidance, and provisions of the FAM. This checklist should be completed before the report is issued and should be prepared by the audit manager and reviewed by the assistant director and audit director. If the audit is conducted at multiple sites, the site supervisor may complete parts of the checklist for each site (with the audit manager completing an overall checklist). While parts of the checklist are useful in audit planning, no specific signatures are required on the checklist in the planning phase.
- .02 The detailed questions in this checklist are to be answered “no,” “N/A” (not applicable), or “yes.” For some questions, “no” answers might indicate departures from professional standards or from policies. The auditor should explain all “no” answers at the end of this checklist and should consider the effects and significance of “no” answers, including any effect on the auditor’s report. Check “N/A” when the item does not exist or when the item exists but is judged to be not material. Because the checklist is designed for the wide range of financial statement audits, there sometimes might be many “N/A” answers. If the reason why a question is not applicable is not obvious, the auditor should document the reason on the checklist or in an attachment. It is not necessary to create additional documentation to support the “yes” answers, but a column is provided to insert a reference to related documentation (“ref.”). The questions are summarized; for most questions, there is a reference to professional literature that provides more detail.
- .03 Section V has questions on GAO's report considerations; section VI has questions on GAO's quality control. GAO auditors should complete these sections. IG auditors and other auditors may use these sections or may substitute forms that consider their reporting style and quality controls.
- .04 See section 650 related to reviewing this checklist (or equivalent) when using the work of others.

Reporting**1003 - Financial Statement Audit Completion Checklist**

- .05 The FAM includes a separate "Checklist for Federal Accounting, Reporting, and Disclosures" (section 1050) that covers accounting, financial reporting, and disclosure requirements related to financial statements prepared using U.S. generally accepted accounting principles promulgated by FASAB. The AICPA has published a disclosure checklist for requirements related to financial statements prepared using U.S. generally accepted accounting principles promulgated by FASB. The auditor should prepare (or review, if prepared by the entity) either the Checklist for Federal Accounting, Reporting, and Disclosures or the AICPA disclosure checklist, as applicable, or an equivalent checklist that addresses the applicable accounting, financial reporting, and disclosure requirements. These checklists may be tailored for the needs of the individual agency financial statements.
- .06 GAO auditors should prepare the "GAO Audit Documentation Set" that provides guidance on documentation. IG and other auditors may develop similar tools.
- .07 For GAO's financial audits, a second partner review should be performed and the Chief Accountant should read the report. These reviews by the second partner and/or Chief Accountant are documented on the last two pages of this checklist. IG auditors and other auditors should consider the need for similar reviews.

Reporting
1003 - Financial Statement Audit Completion Checklist

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References:

<i>AICPA Professional Standards</i> (vol. 1).....	AU
<i>GAO/PCIE Financial Audit Manual</i>	FAM
<i>Government Auditing Standards</i>	GAGAS

Reporting
1003 - Financial Statement Audit Completion Checklist

Section I: Planning and Concluding the Audit	N/A	Yes	No*	Ref.
1. Has the audit team documented that it has established an understanding with the individuals requesting the audit and officials of the entity as to the objectives of the work; management's responsibilities; auditors' responsibilities; the nature, timing, and extent of planned testing and reporting; the planned level of assurance; and any limitations of the work? (FAM 280 and GAGAS, par. 4.06)	—	—	—	—
2. Were entrance conferences held?	—	—	—	—
3. Does the entity profile (or equivalent) document an understanding of the entity sufficient to plan the audit? (FAM 290.03)	—	—	—	—
4. Does the documentation contain an adequate general risk analysis or the equivalent? (FAM 290.04)	—	—	—	—
5. Did the audit team adequately perform and document the following planning steps? (FAM 290.04)				
a. Perform preliminary analytical procedures (FAM 225)	—	—	—	—
b. Determine planning, design, and test materiality (FAM 230)	—	—	—	—
c. Identify significant laws and regulations (FAM 245)	—	—	—	—
d. Identify relevant budget restrictions (FAM 250)	—	—	—	—
e. Understand the budget formulation process (FAM 260.51)	—	—	—	—
(continued on next page)				

Reporting
1003 - Financial Statement Audit Completion Checklist

Section I: Planning and Concluding the Audit	N/A	Yes	No*	Ref.
5. (continued)				
f. Assess inherent risk and the overall effectiveness of the control environment, risk assessment, communication, and monitoring, including whether weaknesses in the control environment, risk assessment, communication, and monitoring preclude the effectiveness of specific control activities (FAM 260)	—	—	—	—
g. Conduct brainstorming meeting(s), obtain information to identify fraud risks, and identify and assess fraud risks (FAM 260)	—	—	—	—
h. Respond to fraud risks, including any related to revenue and to management override of controls, and exercise professional skepticism throughout the audit (FAM 260)	—	—	—	—
i. Design the audit to achieve an acceptable level of audit assurance that the financial statements are not materially misstated (GAO uses 95 percent) (FAM 260.04)	—	—	—	—
j. Consider the effects of information technology, including service centers (FAM 220, 260.17, 260.41-42, and 270)	—	—	—	—
k. Assess the FMFIA process (FAM 260.43)	—	—	—	—
l. Consider operations controls to be tested (FAM 275)	—	—	—	—
m. Understand performance measures controls (FAM 275)	—	—	—	—
n. Plan other procedures (representation letters, related party transactions, sensitive payments) (FAM 280)	—	—	—	—
(continued on next page)				

Reporting
1003 - Financial Statement Audit Completion Checklist

Section I: Planning and Concluding the Audit	N/A	Yes	No*	Ref.
5. (continued) <ul style="list-style-type: none"> <li data-bbox="354 474 971 506">o. Consider locations to be visited (FAM 285) <li data-bbox="354 543 987 674">p. Plan procedures to test whether the entity's financial management systems substantially comply with the requirements of FFMIA (FAM 350.02) <li data-bbox="354 716 818 747">q. Consider staffing requirements <li data-bbox="354 785 867 848">r. Consider timing of procedures and milestones (FAM 295 D) <li data-bbox="354 886 959 917">s. Consider assistance from entity personnel 	—	—	—	—
6. Does the general risk analysis or the equivalent reflect appropriate consideration of findings and recommendations from previous audits that could affect the current audit objectives? (GAGAS, par. 4.14)	—	—	—	—
7. Did the audit team identify budget controls for each relevant budget restriction and perform sufficient work to support the conclusions on internal control? (FAM 250, 310.05, 330.09)	—	—	—	—
8. Did the audit team identify compliance controls and perform sufficient work to support the conclusions on internal control? (FAM 245, 310.05, 330.09)	—	—	—	—
9. If the audit team used the work of others (CPA firms, IGs, internal auditors, or specialists), did the audit team meet the requirements of FAM 650?	—	—	—	—

Reporting
1003 - Financial Statement Audit Completion Checklist

Section I: Planning and Concluding the Audit	N/A	Yes	No*	Ref.
<p>10. Did the audit team perform overall analytical procedures, including documentation of the following?</p> <p>a. Expectations</p> <p>b. Data/sources</p> <p>c. Parameters</p> <p>d. Explanations/corroboration</p> <p>e. Conclusions (FAM 590.04)</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>
<p>11. Does the documentation indicate that the audit team properly performed the following procedures in the reporting phase of the audit? (FAM 590.01)</p> <p>a. Evaluate misstatements, including considering whether any misstatements are indicative of fraud (FAM 540)</p> <p>b. Bring all misstatements to the attention of entity management (FAM 540.07)</p> <p>c. Obtain attorneys' representations (FAM 550.02)</p> <p>d. Review subsequent events (FAM 550.04 and 1005)</p> <p>e. Obtain management representations (FAM 550.08 and 1001)</p> <p>f. Identify and test related party transactions (FAM 550.12 and 1006)</p> <p>g. Review the consistency of other information accompanying the financial statements (FAM 580.76)</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>

Reporting
1003 - Financial Statement Audit Completion Checklist

Section I: Planning and Concluding the Audit	N/A	Yes	No*	Ref.
<p>12. Does the audit summary memorandum or equivalent properly summarize or refer to documentation addressing the following? (FAM 590.02-.03)</p> <p>a. Changes from original risk assessments</p> <p>b. Additional fraud risks or other conditions identified during the audit calling for an additional response and the additional response</p> <p>c. The basis for conclusions on significant auditing, accounting, and reporting issues</p> <p>d. Conclusions on adequacy of procedures</p> <p>e. Unadjusted misstatements</p> <p>f. Conclusions on financial statements</p> <p>g. Conclusions on internal control</p> <p>h. Conclusions on whether the entity's financial management systems meet the requirements of FFMIA</p> <p>i. Conclusions on compliance with laws and regulations</p> <p>j. Conclusions on the consistency of accompanying information with the principal statements</p> <p>13. Has the Audit Director determined that appropriate communications have occurred among the audit team members regarding fraud risks? (FAM 540.19)</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>

Reporting
1003 - Financial Statement Audit Completion Checklist

Section I: Planning and Concluding the Audit	N/A	Yes	No*	Ref.
14. Is there documentation that the following occurred? a. Deviations from the "should" procedures in the FAM and the basis therefor were approved by the assistant director with copies of the documentation sent to the audit director and the Reviewer b. Deviations from the "must" procedures in the FAM were approved by the Reviewer (FAM 100.28)	 _____ _____	 _____ _____	 _____ _____	 _____ _____

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
Answer these questions for each key audit area or cycle. Indicate the key audit areas and cycles to which these questions: _____ _____ _____ _____ _____				
1. Did the audit team prepare the following documentation summarizing considerations in planning and performing the work in the key audit areas and cycles? <ul style="list-style-type: none"> a. Cycle Matrix or an equivalent (or documentation in Account Risk Analysis or an equivalent) showing links between accounts, cycles, applications and line items (FAM 290.05) b. Account Risk Analysis or an equivalent (FAM 290.06) c. Cycle Memorandum and/or flowchart or equivalents (FAM 390.04-.05) d. Specific Control Evaluation or an equivalent (FAM 390.06) e. Written audit program (AU 311.05) 	_____ _____ _____ _____ _____	_____ _____ _____ _____ _____	_____ _____ _____ _____ _____	_____ _____ _____ _____ _____
2. If conditions changed during the course of the audit, was the audit program modified as appropriate in the circumstances? (AU 311.05)	_____	_____	_____	_____

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p>3. When the audit team performed sampling, did it properly determine and document the following?</p> <p>a. The method used in relation to test objectives</p> <p>b. Sample size and the method of determining it</p> <p>c. Tests performed</p> <p>d. Results (misstatements and deviations found)</p> <p>e. Evaluation (including projection to the population)</p> <p>f. Conclusions (FAM 490.07)</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>
<p>4. When the audit team performed substantive analytical procedures, did it properly document the following?</p> <p>a. Expectations and the method used to develop them</p> <p>b. Data sources/reliability</p> <p>c. Limit/criteria</p> <p>d. Client explanations and corroborating evidence</p> <p>e. Additional steps needed</p> <p>f. Conclusions (FAM 490.07)</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>	<p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p> <p>—</p>

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
5. When the audit team performed interim testing, did it do the following? a. Test the rollforward period b. Properly document: i. The basis for using interim testing ii. The procedures performed iii. The effects of any misstatements found (FAM 495C.06)	 ___ ___ ___ ___	 ___ ___ ___ ___	 ___ ___ ___ ___	 ___ ___ ___ ___
6. Did the audit team evaluate the reasonableness of significant accounting estimates made by management? (AU 342)	___	___	___	___
7. Were known and likely misstatements identified in the testing of the key area carried forward to the summary of possible adjustments? (FAM 540.04)	___	___	___	___
8. Did an information systems auditor review the specific control evaluation to evaluate the audit team's decision on which controls are computer-related (including controls relating to service-center-produced records)? (FAM 350.10)	___	___	___	___

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p>9. Based on the inherent and control risk, did the audit team perform adequate substantive tests of the following? (If not a key area, check the N/A box.)</p> <p><u>Fund Balance with Treasury (FBWT)</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Did the audit team test the agency's year-end reconciliation of Fund Balances with Treasury to Treasury account ledgers and trial balance reports (Financial Management Service (FMS) Forms 6653, 6655)? • Did the audit team determine whether the auditee did the following? <ul style="list-style-type: none"> a. Researched and resolved differences before making adjustments b. Recorded any necessary adjustments in the agency's FBWT accounts c. Reported the adjustments to Treasury d. Disclosed in the notes to the financial statements material unreconciled differences and budget clearing account differences at year-end, and material unreconciled differences written off by the agency during the year? <p>(continued on next page)</p>	—	—	—	—

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p><u>Fund Balance with Treasury</u> (continued)</p> <ul style="list-style-type: none"> Did the audit team assess (at absolute value) the materiality of unreconciled differences, such as those reported on the Statement of Differences (FMS form 6652) and those included in budget clearing accounts (such as budget accounts F3875, F3878, F3879)? (GAO/AIMD-97-104R) 				
<p><u>Receivables</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> Where practical, were accounts receivable confirmed and appropriate follow-up steps taken, including second requests and alternate procedures? (AU 330.30-.31) If substantive test were performed prior to year-end, was there an adequate review of transactions from the interim date to the balance sheet date? (AU 313.08-.09) If a significant number and amount of accounts receivable were not confirmed, were other appropriate auditing procedures performed? (AU 330.31-.32) 	—	—	—	—

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p><u>Inventories</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Were physical inventories observed at all locations where material amounts were located? (AU 331) • If perpetual inventory records are maintained, does the documentation indicate that differences disclosed by the physical inventory (or cycle counts) are properly reflected in the financial statements? (AU 331) • When the physical inventory is taken at a date other than the balance sheet date (or where rotating procedures are used), did the auditor consider inventory transactions between the inventory date(s) and the balance sheet date? (AU 313.08-.09) • Does the documentation contain evidence that counts were correctly made and recorded (was control over inventory tags or count sheets maintained) and test count quantities were reconciled with the counts reflected in the final inventory? (AU 331.09) <p>(continued on next page)</p>	---	---	---	---

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p><u>Inventories</u> (continued)</p> <ul style="list-style-type: none"> • Were there adequate tests of the following? <ul style="list-style-type: none"> a. Clerical accuracy of the inventory b. Costing methods and substantiation of costs used in pricing all elements of the inventory c. Cutoff • Were analytical procedures used to test the overall valuation of inventories? 				
<p><u>Investments</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Was a summary schedule prepared (or obtained) and details tested with respect to the description, purchase price and date, changes during the period, income, market value, etc. of investments? • Were securities either examined or confirmed? (AU 332.04) 	---	---	---	---

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p><u>Property, Plant, and Equipment</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period, and ending balances for the following? <ul style="list-style-type: none"> a. Property, plant, and equipment b. Accumulated depreciation • If samples were used to determine opening balances, were the samples appropriate? • Did the audit team perform tests of completeness, such as by testing from disbursements to property records? • Do the tests appear adequate and were proper conclusions drawn? 	---	---	---	---
<p><u>Liabilities</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Did the audit team perform an adequate search for unrecorded liabilities? • Did the audit team consider expenses that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement), and whether accrued expenses were reasonably stated? 	---	---	---	---

Reporting
1003 - Financial Statement Audit Completion Checklist

Section II: Key Audit Areas	N/A	Yes	No*	Ref.
<p><u>Revenue and Expenses</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Did the audit team compare revenue and expenses for the period to expectations, based on the budget and the results of the preceding period? (AU 329) • Were significant variances and fluctuations from expectations explained? (AU 329) • Did the audit team consider the following? <ul style="list-style-type: none"> a. The entity's revenue recognition policy b. Unusual transactions c. Fraud risks • Do tests appear adequate and were proper conclusions drawn? 	—	—	—	—
<p><u>Statement of Budgetary Resources</u></p> <p>Consider these issues:</p> <ul style="list-style-type: none"> • Were appropriate procedures applied, such as the following? <ul style="list-style-type: none"> a. Understanding and testing the budget execution controls b. Tests of the process of preparing the statement c. Tests of undelivered orders d. Review of reconciliation to the President's Budget 	—	—	—	—

Reporting
1003 - Financial Statement Audit Completion Checklist

Section III: Consultation	N/A	Yes	No*	Ref.
<p>1. Where warranted by the complexity or unusual nature of an issue (for example, issues where the FAM requires consultation, issues not discussed in FAM or professional standards, going concern issues, economic dependency issues, issues arising after report issuance), was there appropriate consultation with specialists, including the following?</p> <ul style="list-style-type: none"> • The Reviewer (FAM Appendix A) • The Statistician (FAM Appendix A) • The Office of General Counsel (FAM Appendix A) • The Technical Accounting and Auditing Expert? (FAM 100.25) 	—	—	—	—
<p>2. Were significant consultations appropriately documented? (FAM 100.24)</p>	—	—	—	—
<p>3. Were the persons consulted made aware of all relevant facts and circumstances?</p>	—	—	—	—

Reporting
1003 - Financial Statement Audit Completion Checklist

Section IV: Report	N/A	Yes	No*	Ref.
1. Does the auditor's report include the following?				
a. Introduction	—	—	—	—
b. Significant matters (if applicable)	—	—	—	—
c. Conclusions on:				
i. Financial statements	—	—	—	—
ii. Internal control	—	—	—	—
iii. Whether the entity's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA)	—	—	—	—
iv. Compliance with laws and regulations	—	—	—	—
v. Consistency of other information with financial statements	—	—	—	—
d. Objectives, scope, and methodology, including description of all instances where GAGAS and OMB audit guidance were not followed	—	—	—	—
e. Agency comments (FAM 580.04, 580.81)	—	—	—	—

Reporting
1003 - Financial Statement Audit Completion Checklist

Section IV: Report	N/A	Yes	No*	Ref.
2. Is the auditor's report appropriate as to the following? a. Wording b. Scope of work c. U.S. generally accepted accounting principles d. Explanatory paragraphs e. Opinion on financial statements f. Conclusions on internal control g. Conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA h. Reporting on compliance with laws and regulations (FAM 580)	___ ___ ___ ___ ___ ___ ___ ___	___ ___ ___ ___ ___ ___ ___ ___	___ ___ ___ ___ ___ ___ ___ ___	___ ___ ___ ___ ___ ___ ___ ___
3. Is background material (purpose, authority, and functions of programs/activities) limited to what is necessary?	___	___	___	___
4. Is the auditor's report dated in conformity with professional standards? (AU 530, FAM 1601)	___	___	___	___
5. Does the auditor's report cover all periods for which financial statements are presented? (AU 508.65)	___	___	___	___
6. If the financial statements of a prior period are presented and have been audited by a predecessor auditor whose report is not presented, does the auditor's report refer to the predecessor auditor's report? (AU 508.74)	___	___	___	___

Reporting**1003 - Financial Statement Audit Completion Checklist**

Section IV: Report	N/A	Yes	No*	Ref.
7. Does the auditor's report describe the responsibility the auditor is taking for supplementary information, including stewardship information? (AU 551; FAM 580.76-.79)	—	—	—	—
8. a. When illegal acts involve funds received from other governmental entities, did the audit team satisfy itself that the audited entity notified the proper officials of those entities within a reasonable time? b. If the entity did not, or was unable to do so because the top official was involved, did the audit team report these acts to the officials of those other governmental entities? (GAGAS, par. 5.23)	—	—	—	—
9. Does the auditor's report include the following? a. Identification of which matters are reportable conditions and which of the reportable conditions are material weaknesses (GAGAS, par. 5.14) b. Reference to a separate letter, if applicable, describing nonreportable conditions (GAGAS, par. 5.16) c. Presentation of all identified (1) instances of fraud and illegal acts unless clearly inconsequential, (2) significant violations of provisions of contracts or grant agreements, and (3) significant abuse (GAGAS, par. 5.12)	—	—	—	—
10. When appropriate, did the audit team report directly to outside parties on fraud, illegal acts, violations of provisions of contracts or grant agreements, or significant abuse? (GAGAS, par. 5.21)	—	—	—	—

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Section IV: Report	N/A	Yes	No*	Ref.
11. Did the auditor consider the status of all known significant findings and recommendations from prior audits that affect current audit objectives, including whether any failure to follow up and correct previously identified deficiencies in internal control represent reportable conditions? (GAGAS pars. 4.16, 5.12, and 5.13j.)	—	—	—	—
12. Is a reasonable basis documented for the following? a. The opinion about whether the financial statements and disclosures comply in all material respects with U.S. generally accepted accounting principles (FAM 560) b. The conclusions on internal control c. The conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA d. The conclusions about compliance with laws and regulations	—	—	—	—
13. Is a reasonable basis documented for reported findings, including the following? (FAM 590.05-.06) a. Internal control weaknesses b. Instances of the entity's financial management systems lack of substantial compliance with the requirements of FFMIA c. Instances of noncompliance with laws and regulations	—	—	—	—

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Section IV: Report	N/A	Yes	No*	Ref.
14. Do the findings include (where appropriate) the following? a. Condition (describe the existing situation) b. Criteria (state what we are comparing to) c. Cause (reflect reason or reasons why the condition and criteria differ) d. Effect (describe the result of the difference between the condition and criteria)	___ ___ ___ ___	___ ___ ___ ___	___ ___ ___ ___	___ ___ ___ ___
15. Are recommendations and suggestions reasonable, doable, and cost-effective?	___	___	___	___
16. Does the presentation of agency comments include the following? a. Type of comments obtained (oral, written) b. Title of the most senior official(s) involved c. Accurate characterization of general agreement or disagreement with the report d. Description of the substance of the comments e. Resolution of all substantive comments	___ ___ ___ ___ ___	___ ___ ___ ___ ___	___ ___ ___ ___ ___	___ ___ ___ ___ ___

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Section V: GAO's Report Considerations	Yes
<p>1. Overall, does the report have the following characteristics?</p> <p>a. Professional (the work reflects an understanding of the issues, an awareness of the external environment, including sensitivity to relevant trends, and a practical approach to what can be done to deal with the problems noted)</p> <p>b. Accurate (presents information or findings accurately; contains no notable errors in logic or reasoning)</p> <p>c. Objective (presentation is fair and impartial; tone is constructive and objective)</p> <p>d. Fact-based (states information and findings completely, includes all necessary facts and/or explanations, distinguishes between fact and unproven or uncorroborated material, and resolves conflicting evidence)</p> <p>e. Balanced (presents sound and logical evidence to support conclusions, does not use adjectives or adverbs to characterize evidence in a way that implies criticism or conclusions by innuendo, and appropriately recognizes positive aspects of the programs or issues reviewed)</p> <p>f. Timely and useful (provides relevant and timely information)</p> <p>g. Clear and concise (presentation is clear, concise, and well organized; message is presented logically; and writing style is adapted to the audience)</p>	<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>

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Section VI: GAO's Quality Control	N/A	Yes	No*	Ref.
1. Was the report reviewed by the following?				
a. Audit Director	—	—	—	—
b. Office of the General Counsel	—	—	—	—
c. Chief Accountant	—	—	—	—
d. Second Partner	—	—	—	—

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Section VI: GAO's Quality Control	N/A	Yes	No*	Ref.
2. Did the audit director review the following? (FAM 1301.17)				
a. General risk analysis or equivalent, including sampling approach	—	—	—	—
b. Account risk analyses or equivalent for material areas with high or moderate combined risk	—	—	—	—
c. Memoranda on key accounting and auditing issues	—	—	—	—
d. Summary memoranda for material areas with high or moderate combined risk	—	—	—	—
e. Management representation letter	—	—	—	—
f. Legal representation letter	—	—	—	—
g. Summary of unadjusted misstatements	—	—	—	—
h. Exit conference summary memorandum	—	—	—	—
i. Audit summary memorandum	—	—	—	—
j. Financial statements	—	—	—	—
k. Referencing/Quality Assurance Review Sheet	—	—	—	—
l. GAO Audit Documentation Set	—	—	—	—

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1003 - Financial Statement Audit Completion Checklist

Section VI: GAO's Quality Control	N/A	Yes	No*	Ref.
3. Did the assistant director review the following? (FAM 1301.17)				
a. Entity profile or equivalent	___	___	___	___
b. General risk analysis or equivalent, including sampling approach	___	___	___	___
c. Account risk analyses or equivalent	___	___	___	___
d. Initial audit programs	___	___	___	___
e. Lead schedules	___	___	___	___
f. Completed audit programs	___	___	___	___
g. Memoranda on key accounting and auditing issues	___	___	___	___
h. Summary memoranda	___	___	___	___
i. Checklist for Federal Accounting Reporting, and Disclosures (for statements using GAAP promulgated by FASAB)	___	___	___	___
j. Financial reporting and disclosure checklist (for statements using GAAP promulgated by FASB)	___	___	___	___
k. Management representation letter	___	___	___	___
l. Legal representation letter	___	___	___	___
m. Summary of unadjusted misstatements	___	___	___	___
n. Exit conference memorandum	___	___	___	___
o. Audit summary memorandum	___	___	___	___
(continued on next page)				

Reporting
1003 - Financial Statement Audit Completion Checklist

Section VI: GAO's Quality Control	N/A	Yes	No*	Ref.
3. (continued)				
p. Financial statements	___	___	___	___
q. Referencing/Quality Assurance Review Sheet	___	___	___	___
r. GAO Audit Documentation Set	___	___	___	___
4. Did the assistant director or audit manager determine that all significant review notes were resolved appropriately? (FAM 1301.28)	___	___	___	___
5. Did an assistant director initial all bundle covers to indicate that all documentation was sufficiently reviewed? (FAM 1301.05)	___	___	___	___
6. Were review notes, superseded versions of documentation, and draft reports (except the referenced draft and the draft sent to the agency for comment), including review notes and superseded versions in electronic form, placed in a separate folder to be retained until the report is issued (unless the audit director decides to retain them until the next audit)? (FAM 1301.28)	___	___	___	___
7. Were review responsibilities communicated to all individuals on the assignment? (FAM 1301.23)	___	___	___	___
8. Was documentation prepared by an information systems auditor reviewed by an information systems auditor for technical content and by a member of the audit team to determine that related audit objectives were achieved? (FAM 1301.24)	___	___	___	___
9. For areas that are both material and have high combined risk, did the audit director or assistant director perform secondary reviews of the documentation? (FAM 1301.12)	___	___	___	___

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1003 - Financial Statement Audit Completion Checklist

Section VI: GAO's Quality Control	N/A	Yes	No*	Ref.
10. Was all documentation prepared by the audit director or assistant directors read by audit managers or auditors in charge to determine its consistency with any related documentation? (FAM 1301.15)	—	—	—	—
11. If the documentation indicated a difference of opinion between engagement personnel or between engagement personnel and a specialist or other person consulted, was the difference resolved appropriately and was the basis of the resolution documented? (FAM 1302)	—	—	—	—

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Section VII: Explanation of "NO" Answers* and Other Comments

The following pages are provided for comments on all "no" answers* or to expand upon any of the "yes" and "N/A" answers.

* For some questions, "no" answers might indicate departures from professional standards or from policies. The auditor should explain all "no" answers below and should consider the effects and significance of "no" answers, including any effect on the auditor's report.

<u>Page</u> <u>no.</u>	<u>Question</u> <u>no.</u>	<u>Explanatory comments</u>	<u>Disposition</u> <u>of comments</u>
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1003 - Financial Statement Audit Completion Checklist

Section VIII: Conclusions: Based on your review and knowledge, do you believe the following?	Yes	No**
1. The audit team performed the engagement, in all material respects, in accordance with U.S. generally accepted government auditing standards (which include U.S. generally accepted auditing standards) and applicable OMB guidance, or the auditor's report was appropriately modified	___	___
2. The financial statements conformed, in all material respects, with U.S. generally accepted accounting principles, or the auditor's report was appropriately modified	___	___
3. The auditor's report was appropriate in the circumstances	___	___
4. The documentation on this engagement supports: The auditor's opinion on the financial statements The auditor's conclusions on internal control The auditor's conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA The auditor's conclusions on compliance with laws and regulations	___ ___ ___ ___	___ ___ ___ ___
5. The audit team complied, in all material respects, with the audit organization's policies and procedures	___	___

** If any of the above 5 statements have "no" responses, please describe the response in a memorandum to the Reviewer.

Date of completion of fieldwork _____

Audit Manager _____ Date _____

Assistant Director _____ Date _____

Audit Director _____ Date _____

Reporting
1003 - Financial Statement Audit Completion Checklist

Section IX: Second Partner's Concurrence

Objective of second partner review: To objectively review significant auditing, accounting, and reporting matters and to conclude, based on all facts the second partner has knowledge of, that, except as discussed in the report, no matters were found that caused the second partner to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable), (2) the financial statements are not, in all material respects, in conformity with U.S. generally accepted accounting principles, and (3) the report does not meet professional standards and GAO's policies and core values.

Procedures: Before the report was issued, I performed the following procedures.

- Discussed significant auditing, accounting, and reporting issues with the Audit Director;
- Discussed the audit team's identification of high-risk balances and transactions and the audit of those balances and transactions;
- Reviewed documentation on the resolution of significant auditing, accounting, and reporting issues, including documentation of consultation with specialists such as the Chief Accountant, Chief Statistician, and IS professionals;
- Reviewed the summary of unadjusted misstatements;
- Read the audit summary memorandum;
- Read the financial statements and audit report; and
- Confirmed with the Audit Director that there are no unresolved issues.

Conclusion:

Based on all the relevant facts of which I have knowledge, I found no matters, except as discussed in the report, that cause me to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable), (2) the financial statements are not, in all material respects, in conformity with U.S. generally accepted accounting principles, and (3) the report is not in accordance with professional standards and GAO's policies and core values.

In signing this form, I acknowledge that there have been no personal or external impairments to independence regarding my work on this engagement.

Second Partner Name and Title

Signature

Date

Reporting
1003 - Financial Statement Audit Completion Checklist

Section X: Chief Accountant's Concurrence

When the Chief Accountant is not the second partner, the Chief Accountant should read the report. The Chief Accountant should then sign the conclusion below.

Conclusion:

Based on my reading of the report, I found no matters, except as discussed in the report, that cause me to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable), (2) the financial statements are not, in all material respects, in conformity with U.S. generally accepted accounting principles, and (3) the report is not in accordance with professional standards and GAO policies and core values.

In signing this form, I acknowledge that there have been no personal or external impairments to independence regarding my work on this engagement.

Chief Accountant's Signature

Date

Reporting

1004 - RESERVED

[For Checklist for Federal Accounting, Reporting, and Disclosures,
see section 1050]

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Reporting

1005 - SUBSEQUENT EVENTS REVIEW

- .01 This section deals with the subsequent events review that the auditor is required to perform as part of the audit, as described in section 550. AU 560 describes and provides guidance on the types of subsequent events requiring evaluation by the auditor as well as the procedures that generally should be performed to discover whether such events have occurred.
- .02 Subsequent events are those events or transactions that may occur or become known subsequent to the date of the financial statements but before the audit report is issued and that have a material effect on the financial statements and thus require adjustment or disclosure.
- .03 Two types of subsequent events may occur:
- Events occurring after the date of the financial statements that provide additional information about conditions existing at the date of the financial statements and that affect amounts recorded (or which should be recorded) in the financial statements. For example, a subsequent event may reveal that an accounting estimate is materially incorrect and that the financial statements should be adjusted.
 - Events occurring after the date of the financial statements that provide information about conditions that did not exist at the date of the financial statements. These events should not result in adjustments to the financial statements, but disclosure of them may be necessary to prevent the statements from being misleading. For example, a fire or flood after year-end may cause a significant loss.
- .04 The purpose of a subsequent events review is to determine whether all subsequent events that have a material effect on the financial statements have been considered and treated appropriately in the financial statements. The subsequent period covered is from the date of the financial statements to the date of the audit report, which is the date of the completion of fieldwork.

AUDIT PROCEDURES

- .05 At or near the completion of fieldwork, the auditor generally should perform specific procedures to be satisfied that he or she is aware of all subsequent events that may require adjustment to or disclosure in the financial statements. These procedures are in addition to substantive tests that may

Reporting
1005 - Subsequent Events Review

be applied to transactions occurring after the date of the financial statements, such as examining subsequent disbursements to test completeness of accounts payable. The following program describes audit procedures that may be performed as part of a subsequent events review. The procedures generally should be customized for the particular audited entity.

Reporting
1005 - Subsequent Events Review

Entity_____

Period of financial statements_____

Job code_____

<p align="center">Subsequent Events Review Program Audit procedure</p>	<p align="center">Done by/date</p>	<p align="center">W/P ref</p>
<p>I. Read Interim Financial Statements</p> <p>A. Compare the latest available interim financial statements, if any, with the financial statements under audit to identify any unusual adjustments and investigate any significant variations.</p> <p>B. Inquire as to whether the interim statements have been prepared on the same basis as the annual statements.</p> <p>C. For items in the statement of net costs, compare to similar interim financial statements of the prior year; consider expectations and investigate any significant variations.</p> <p>D. If interim financial statements are not available:</p> <ol style="list-style-type: none"> 1. Compare interim internal financial reports or analyses, budgets, or cash-flow forecasts, considering any adjustments to the internal reports that may be necessary to make meaningful comparisons. 2. Review the accounting records prepared since the date of the financial statements for material transactions that may require adjustment to or disclosure in the financial statements, such as by scanning the general ledger and/or journals for material, unusual entries. 		

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1005 - Subsequent Events Review

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
<p>II. Make Inquiries of Management as to:</p> <ul style="list-style-type: none"> A. Whether any significant contingent liabilities or commitments existed at the date of the financial statements or at the date of the inquiry. B. Whether any significant changes occurred in the financial condition of the entity or in net position or long-term debt. C. The current status of items in the financial statements that were accounted for on the basis of tentative, preliminary, or inconclusive data. D. Whether any significant changes in estimates were made with respect to amounts included or disclosed in the financial statements, or any significant changes in assumptions or factors were considered in determining estimates. E. Whether any unusual adjustments have been made during the period from the date of the financial statements to the date of inquiry. F. Whether any significant events occurred subsequent to the date of the financial statements, such as commitments or plans for major capital expenditures; lawsuits filed or settled other than those disclosed in the lawyers' letters; changes in accounting and financial policies; or losses as a result of fire, flood, or other disaster. 		

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1005 - Subsequent Events Review

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
<p>III. Read Minutes</p> <p>A. Read the available minutes of meetings of agency management committees or other appropriate groups, including the period after the date of the financial statements, for information about events or transactions authorized or discussed which may require adjustment to or disclosure in the financial statements.</p> <p>B. With regard to meetings for which no minutes are available, inquire about matters dealt with at such meetings and conclusions reached.</p>		
<p>IV. Cover Subsequent Events in Lawyers' Letters</p> <p>A. Confirm litigation, claims, and assessments with the entity's legal counsel. See section 550 and AU 337.</p>		
<p>V. Cover Subsequent Events in Management Representation Letter</p> <p>A. Have management include representations in its management representation letter as to whether any events occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements. See section 1001.</p>		

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1005 - Subsequent Events Review

Subsequent Events Review Program Audit procedure	Done by/date	W/P ref
<p>VI. Other</p> <p>A. Use other sources of information to learn of subsequent events, such as:</p> <ol style="list-style-type: none"> 1. Talk to inspector general or internal audit department. 2. Talk to program divisions. 3. Read newspapers. <p>B. Make additional inquiries or perform additional procedures deemed necessary to resolve any questions raised in the foregoing audit steps.</p> <p>C. Prepare a summary memo documenting the results of the above and conclusions reached.</p>		

Reporting

1006 - RESERVED

[For related parties, see FAM section 902]

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