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# SECTION 600

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## Planning and General

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### 601 - INTRODUCTION TO PART II – TOOLS

- .01 Part II of the GAO/PCIE *Financial Audit Manual* (FAM) consists of tools to assist the auditor<sup>1</sup> in performing a financial statement audit. These tools are generally organized according to the phases of the audit: tools in section 600 deal with the planning phase and general issues; section 700, the internal control phase; section 800, compliance; section 900, substantive testing; and section 1000, the reporting phase.
- .02 Many of the tools in the various sections include activities that would be performed during other phases of the audit. Thus, the auditor should refer to the sections in part II early in the audit. For example, section 701, Assessing Compliance of Agency Systems with the Federal Financial Management Improvement Act, includes procedures that would be performed throughout the audit, not just during the internal control phase, although many of them would be performed then. Also, section 902, Related Parties, Including Intragovernmental Activity and Balances, has procedures that the auditor may decide to perform in the planning and internal control phases of the audit as well as during the testing phase.
- .03 The audit procedures presented in the examples in this and other sections of part II (tools) of the GAO/PCIE FAM are examples of some of the audit steps typically performed in each area. They should be used in conjunction with the appropriate FAM sections. In using these procedures, the auditor should use judgment to add additional procedures, delete irrelevant procedures, modify procedures, indicate the extent and timing of procedures, and change the terminology to that used by the audited entity. The auditor may integrate these steps with the audit programs for related line items. For example, tests of intragovernmental activity and balances (section 902) may be integrated with tests of accounts receivable and payable, and, to improve efficiency, the auditor may coordinate those tests with related nonintragovernmental activity and balances.

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<sup>1</sup> The term "auditor," throughout the FAM includes individuals who may be titled auditor, analyst, evaluator, or have a similar position description.

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### 650 - USING THE WORK OF OTHERS

- .01 In many audits, the auditor uses the work and reports of other auditors and specialists. Other auditors include CPA firms, Inspectors General, state auditors, and internal auditors. Specialists include actuaries and information systems auditors. The audit organization may contract with a CPA firm to perform parts of or the entire audit. The audit organization should use FAM 650 to design and perform appropriate oversight and other procedures to use the work of other auditors and specialists. (The audit organization using the work of other auditors and specialists is referred to below as "the auditor.") This section provides guidance on using the work of other auditors and specialists and the nature and extent of procedures the auditor should perform.
- .02 Various professional standards provide guidance in this area. These standards include AU 543, "Part of Audit Performed by Other Independent Auditors"; AU 322, "The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements"; AU 336, "Using the Work of a Specialist";<sup>1</sup> and AU 315 (SAS No. 84), "Communication Between Predecessor and Successor Auditors." These standards have different requirements depending on whether the other organization is an independent auditor, an internal auditor, or a specialist.
- .03 The auditor may use the work of other auditors and specialists in various situations, for example:
- audits by Inspectors General or CPA firms in accordance with the GAO/PCIE FAM;
  - CPA firms or specialists hired to do parts of an audit (for example, review information systems controls, review actuarial calculations, test specific accounts);
  - single audits or audits of federal funds performed by state auditors and CPA firms;
  - work performed by internal auditors; and
  - internal audit staff who provide direct assistance to the auditor.
- .04 AU 543.13 states: "In some circumstances the principal auditor may consider it appropriate to participate in discussions regarding the accounts with

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<sup>1</sup> The AICPA also issued Practice Alert 2002-02, *Use of Specialists*.

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management personnel of the component whose financial statements are being audited by other auditors and/or to make supplemental tests of such accounts. The determination of the extent of additional procedures, if any, to be applied rests with the principal auditor alone in the exercise of his professional judgment and in no way constitutes a reflection on the adequacy of the other auditor's work. Because the principal auditor in this case assumes responsibility for his opinion on the financial statements on which he is reporting without making reference to the audit performed by the other auditor, his judgment must govern as to the extent of procedures to be undertaken."

- .05 The above paragraph makes clear that the principal auditor exercises considerable judgment in deciding what procedures are necessary to use the work of the other auditor. FAM 650 provides guidance in making the judgments necessary to use the work of others. These judgments include
- the type of reporting (see paragraphs 650.09-.10),
  - the auditor's evaluation of the other auditors' or specialists' independence and objectivity (see paragraphs 650.11-.24),
  - the auditor's evaluation of the other auditors' or specialists' qualifications (see paragraphs 650.25-.35), and
  - the auditor's determination of the level of review (see paragraphs 650.36-.41).
- .06 The auditor should coordinate with other auditors whose work he or she wishes to use. In turn, the other auditor should consider the needs of auditors who plan to use the work being performed so that the judgments exercised by both auditors could satisfy the needs of both. This is best done before major work is started. For example, auditors of a consolidated entity (such as the U.S. government or an entire department or agency) are likely to plan to use the work of auditors of subsidiary entities (such as individual departments and agencies or bureaus and components of a department). This coordination can result in more economy, efficiency, and effectiveness of government audits in general and avoid duplication of effort. In addition, the coordination needs to be ongoing throughout the audit so that the timing needs of both the auditor and the other auditors are met. The other auditors should make their audit documentation available for review by the auditor on an ongoing basis during the audit.
- .07 In this coordination, the auditor should inform the other auditor how his or her work and report will be used. AU 543.07 indicates that if the auditor's report will name the other auditor, the auditor should obtain permission to do so and should present the other auditor's report together with the principal auditor's report. For CPA firms, this permission may be obtained through the contracting process. The auditor also should provide the other auditors a draft of the report as a courtesy.

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- .08 When there is a difference of opinion between the two auditors, the principal auditor generally should confer with the other auditor to reach agreement with him or her as to the procedures necessary to satisfy both auditors' professional judgments. If both auditors are unable to reach agreement, 'see paragraphs 650.54 to .56. Section 650 B contains example audit procedures for using the work of others, which depend on the judgments made.

**TYPES OF REPORTING**

- .09 There are various types of reporting when using the work of other auditors and specialists. The type of reporting depends on the degree of responsibility the auditor accepts and the work performed by the auditor. Factors for the auditor to consider in deciding which type of reporting to use include the amount of assurance the auditor wishes to provide, legal requirements, and cost-benefit considerations. The degree of resources required varies by type of report and generally increases in the order presented below. The type of reporting should be decided in planning the job and generally should be discussed with the other auditors or specialists. In deciding the type of reporting, the auditor should consider AU 504.03, which states that an auditor is "associated with financial statements when he has consented to the use of his name in a report, document, or written communication containing the statements." (Section 650 C contains examples of wording for two types of reporting.) The types of reporting are as follows.
- a. **No association with report**—In this situation, the other auditors' or specialists' report is provided directly to the auditee and/or to significant users. The auditor may use this method when the auditor merely procures the audit but is not acting as "the auditor." For example, if there is no legal requirement for a separate report by the auditor, the user does not need a separate report from the auditor, and a separate report would provide no additional information. When the auditor is required by law to perform the audit, he or she should not use this option since he or she is associated with the report.
  - b. **Auditor transmittal letter**—There are two types of transmittal letters, one expressing no assurance and one expressing negative assurance on the other auditors' work. For either type, the auditor is associated with the financial statements as described in AU 504. The fourth standard of reporting states, (in the last sentence) "where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking." Because the auditor did not perform an audit, the auditor should

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disclaim an opinion and should not express concurrence with the other auditors' opinion'. The auditor may use this approach when there is no legal requirement for the auditor to express an opinion or concurrence but the auditor is required to or wants to issue a report or letter. The auditor may expand the letter to highlight certain findings or information or to indicate that certain procedures were performed. See example 1 of section 650 C for wording for both types of transmittal letters.

- **Auditor transmittal letter expressing no assurance**—For this letter, the auditor issues a transmittal letter without reviewing the other auditors' documentation. In these situations, the transmittal should be clear as to the limitations of the auditor's work. The auditor still has the responsibility to monitor any contract and meet the requirements of the IG Act, as amended, CFO Act, and Accountability of Tax Dollars Act of 2002, if applicable.
  - **Auditor transmittal letter expressing negative assurance**—This letter indicates that the auditor reviewed the other auditors' or specialists' report and related documentation and inquired of their representatives and states that the auditor found no instances where the other auditors did not comply, in all material respects, with *Government Auditing Standards* (GAGAS).
- c. **The auditor issues a report that refers to other auditors' reports and indicates a division of responsibilities**—To use this approach, the auditor has two decisions to make: (1) whether the auditor may serve as the principal auditor (AU 543.01-.03) and (2) whether the auditor should refer to the work of the other auditors (AU 543.01-.10). The auditor should exercise considerable judgment in making these decisions and should document the basis for the decisions. One consideration the auditor may use in deciding whether the auditor is the principal auditor is whether the auditor has sufficient knowledge of the entire entity, including portions audited by other auditors. Another consideration is the materiality and importance of the consolidated assets, liabilities, expenses, revenues, or net position he or she has not audited. The auditor may issue a report that refers to other auditors when (1) the other auditors have reported on financial statements for a component entity that is part of the entity whose financial statements the auditor is reporting on and (2) the auditor does not wish to take responsibility for the other auditors' work. (See AU 543.09 for example wording. This approach may be used only for CPA firms or for other auditors who are organizationally independent [see paragraph 650.14]; it may not be used for internal auditors or specialists.) However, if the reader of the report could question the basis for the principal auditor issuing the opinion because of the significant materiality and

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importance of the portion of the financial statements audited by the other auditors, the auditor should consider whether there is a need to issue a report that does not mention the other auditors' work, which may require additional work (see 650.09 e below).

- d. **The auditor issues a report that expresses concurrence with the other auditors' report and conclusions**—The auditor may use this approach when other auditors have reported on financial statements and the auditor needs or wants to provide more assurance than what is provided by the transmittal letter.<sup>2</sup> Expressing concurrence means that the auditor would have reached the same opinion or conclusion had he or she done the audit. Therefore, the auditor needs to do the same level of work as he or she would have done to take responsibility for the other auditor's work.<sup>3</sup> The auditor usually accomplishes this by (1) reviewing the audit documentation and (2) having discussions with entity management and/or performing supplemental tests. See example 2 in section 650 C for report wording. This approach may be used only for CPA firms or for other auditors who are organizationally independent (see paragraph 650.14). This report should not be used for specialists, since AU 336.15 prohibits reference to a specialist's report unless the auditor issues a qualified or adverse opinion or a disclaimer of opinion based on the specialist's work. This approach also should not be used for internal auditors. AU 322.19 notes that the responsibility to report on the

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<sup>2</sup> For example, a certain audit may be required by law, in which the auditor, although allowed to hire other auditors to do the work, is required to give his or her own opinion. In the absence of such a requirement, a report expressing concurrence is generally not cost-effective because of the resources required.

<sup>3</sup> In this instance both the other auditor and the auditor that expresses concurrence are principal auditors because both have sufficient knowledge of the overall financial statements and the important issues, and the concurring auditor, by reason of the level of work done, has also audited the financial statements.

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financial statements rests with the auditor and cannot be shared with internal auditors.<sup>4</sup>

- e. **The auditor issues a report that does not mention the other auditors' or specialists' work**—In this situation, the auditor issues the report in section 595 A and/or B (as if no other auditors or specialists were involved). This means the auditor takes responsibility for the other auditors' or specialists' work. (See 650.09 c above for a discussion of principal auditor issues.) The auditor may use this approach when the other auditors have done part of the audit; the approach also may be used when the other auditors have done substantially the entire audit.<sup>5</sup> The auditor usually accomplishes this by (1) reviewing the audit documentation and (2) having discussions with entity management and/or performing supplemental tests. The auditor also should use this approach when using the work of specialists and internal auditors, because professional standards do not permit referring to specialists' or internal auditors' work (unless, for specialists, the auditor issues a qualified or adverse opinion or a disclaimer of opinion based on the specialist's work). GAO uses this approach in the audit of the consolidated financial statements of the United States Government.

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<sup>4</sup> There may be situations where the auditor is asked to provide a separate opinion in addition to presenting the other auditors' report. In these situations, the auditor should follow the wording in section 595 A and/or B and should add the following in lieu of the introduction to the first paragraph on page 595 A-5:

"To help fulfill these responsibilities, we contracted with the independent certified public accounting firm of [insert firm name] to perform a financial statement audit in accordance with generally accepted government auditing standards, OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*. The report of [name of CPA firm] dated [date] is attached. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of [name of CPA firm], met with partners and staff members of [name of firm], evaluated the key judgments, met with officials of [entity being audited], performed independent tests of the accounting records [if applicable], and performed other procedures we deemed appropriate in the circumstances. Our opinions expressed above are consistent with the opinions of [name of CPA firm]. Thus, in this audit, we:"  
(continue with numbered items).

<sup>5</sup> For example, a number of other auditors may have audited individual components of an entity and the auditor may audit the consolidation process. The auditor may choose to use this approach if the auditor has sufficient knowledge of the entire entity and does additional work (see paragraph 650.10).

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- .10 The following chart presents an overview of the work the auditor generally should perform for each type of report or letter. "Yes" means some of that category of work generally should be performed. "No" means that the category is generally not required for the report or letter. The extent of work in each category depends on the auditor's judgment. See paragraph 650.36 for discussion on level of review.

<b>Type of reporting</b>	<b>Evaluate the other auditors' independence and objectivity (paragraphs 650.11-.24)</b>	<b>Evaluate the other auditors' qualifications (paragraphs 650.25-.35)</b>	<b>Level of Review (paragraphs 650.36-.42)</b>	<b>Hold discussions and/or perform supplemental tests (paragraphs 650.43-.47)</b>
<b>No association with report (paragraph 650.09 a)</b>	No <sup>6</sup>	No	None	No
<b>Auditor transmittal letter expressing no assurance (paragraph 650.09 b, first bullet)</b>	Yes	Yes	Low or none	No
<b>Auditor transmittal letter expressing negative assurance (paragraph 650.09 b, second bullet)</b>	Yes	Yes	Moderate or low	No
<b>Report refers to the other auditors' report and indicates a division of responsibilities (paragraph 650.09 c)</b>	Yes	Yes	Low or none	No

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<sup>6</sup> If the auditor contracts with the other auditors, the contracting process generally will require the auditor to evaluate the other auditors' independence, objectivity, and qualifications and to monitor performance under the contract.

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<b>Type of reporting</b>	<b>Evaluate the other auditors' independence and objectivity (paragraphs 650.11-.24)</b>	<b>Evaluate the other auditors' qualifications (paragraphs 650.25-.35)</b>	<b>Level of Review (paragraphs 650.36-.42)</b>	<b>Hold discussions and/or perform supplemental tests (paragraphs 650.43-.47)</b>
<b>Report concurs with the other auditors' report or does not mention the other auditors' work (paragraph 650.09 d and e)</b>	Yes	Yes	High, moderate, or low	Yes for internal auditors' work (should include supplemental tests). Yes for auditors' work for high level of review. No for auditor's work for moderate or low level of review

**EVALUATING THE OTHER AUDITORS' OR SPECIALISTS' INDEPENDENCE AND OBJECTIVITY**

- .11 Unless the auditor has no association with the report, the auditor should evaluate the other auditors' or specialists' independence and objectivity. Where the auditor has previously used the work of the same other auditors, the auditor generally should update the previous evaluation. Under GAGAS, chapter 3, audit organizations and individual auditors should be free both in fact and appearance from personal, external, and organizational impairments to independence. The auditor should first evaluate organizational independence. Different standards apply to CPA firms, other organizationally independent auditors, internal auditors, and specialists.
- .12 For CPA firms and specialists, the contracting process is designed to select a firm that is independent and objective. The statement of work or request for proposal should ask the firms to represent that they are independent and objective with respect to the auditee and should request the firms to describe in their proposals all work, including nonaudit services, they have done for the auditee in the last several years (see GAGAS, chapter 3, and *Government Auditing Standards: Answers to Independence Questions* (GAO-02-870G, July 2002)). The technical



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evaluation panel should evaluate whether the nature and extent of this work or other factors cause an independence or objectivity issue. In this evaluation, the panel may consider, for example, whether (1) the other auditors will need to audit their own work or (2) whether the other auditors made management decisions or performed management functions.

- .13 If possible,<sup>1</sup> the auditor should have a role in contracting for the CPA firm or specialist. When the auditor does not participate in contracting for the CPA firm or specialist, the auditor generally should obtain an overview of the contracting process; this generally should include reading the statement of work or request for proposal and the proposal of the firm selected, and understanding the evaluations of the panel selecting the firm. The auditor should determine whether the firm provided a representation as to independence and objectivity (usually in its proposal). If the firm has not provided a representation as to independence and objectivity, the auditor should obtain a representation from the firm. If the auditor is not familiar with the firm, the auditor should inquire of professional organizations (such as the American Institute of Certified Public Accountants or the Public Company Accounting Oversight Board established by the Sarbanes-Oxley Act of 2002) as to the firm's professional reputation and standing.
- .14 For government auditors, the auditor should decide whether the other audit organization is organizationally independent to report externally or whether it should be considered an internal audit organization. The auditor may refer to the work of organizationally independent government auditors but should not refer to the work of internal audit organizations in the audit report; generally more extensive review and supervision are necessary when dealing with internal auditors. The auditor should obtain written representations from the head of the government audit organization that to the best of his or her knowledge, the organization and the individual auditors doing the work are independent of the entity being audited. This means that the individual auditors are free of personal impairments to independence and maintain an independent attitude and appearance; it also means that the organization is free from external impairments and is organizationally independent (see GAGAS, chapter 3). The representation letter may indicate the general criteria for determining independence, such as "under the criteria in GAGAS." The representations should be for the period of the financial statements to the date of the other auditors' report. Since the decision on the independence and objectivity of the other auditors is needed to

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<sup>1</sup> Under the CFO Act, if the IG is not doing the audit, he or she is required to determine the independent external auditor (CPA firm) that will do the work.

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plan the auditor's work, the auditor generally should obtain oral representations early in the audit, with written representations at the end of the audit.<sup>2</sup>

- .15 Government auditors may be presumed to be free from organizational impairments to independence when reporting externally to third parties if their audit organization is organizationally independent of the audited entity. Government audit organizations may meet the requirement for organizational independence in a number of ways. There is a presumption that a government audit organization is organizationally independent (GAGAS, chapter 3) if the audit organization is
- a. assigned to a level of government other than the one to which the audited entity is assigned (federal, state, or local), for example, a federal auditor auditing a state government program, or
  - b. assigned to a different branch of government within the same level of government as the audited entity, for example, a legislative auditor auditing an executive branch program.
- .16 There is also a presumption of organizational independence if the head of the audit organization (GAGAS, chapter 3) meets one of the following:
- a. directly elected by voters of the jurisdiction being audited,
  - b. elected or appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body,
  - c. appointed by someone other than a legislative body, so long as the appointment is confirmed by a legislative body and removal from the position is subject to oversight or approval by a legislative body, and reports the results of audits to and is accountable to a legislative body, or
  - d. appointed by, accountable to, reports to, and can only be removed by a statutorily created governing body, the majority of whose members are independently elected or appointed and come from outside the organization being audited.
- .17 If the other audit organization or its head meets one of the above criteria, the auditor need not perform any procedures concerning organizational

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<sup>2</sup> Obtaining a representation from the head of the audit organization is similar to the procedure for CPA firms under AU 543.10b.

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independence other than to obtain a representation letter from the head of the audit organization as noted in paragraph 650.14 (see paragraph 650.23 for tests of personal independence). However, if the auditor encounters evidence that the audit organization might not be organizationally independent, the auditor should consider the need for inquiries and other procedures; the auditor should then evaluate the results of these procedures.

- .18 In addition to the presumptive criteria, GAGAS recognize that there may be other organizational structures under which a government audit organization could be free from organizational impairments. These other structures should provide sufficient safeguards to prevent the audited entity from interfering with the audit organization's ability to perform the work and report the results impartially. For the audit organization to be considered free from organizational impairments to report externally under a structure different from the ones listed above, the audit organization (GAGAS, chapter 3) should have **all** of the following safeguards:
- a. statutory protections that prevent the abolishment of the audit organization by the audited entity,
  - b. statutory protections that require that if the head of the audit organization is removed from office, the head of the agency should report this fact and the reasons for the removal to the legislative body,
  - c. statutory protections that prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit,
  - d. statutory protections that prevent the audited entity from interfering with the reporting on any audit, including the findings, conclusions, and recommendations, or the manner, means, or timing of the audit organization's reports,
  - e. statutory protections that require the audit organization to report to a legislative body or other independent governing body on a recurring basis,
  - f. statutory protections that give the audit organization sole authority over the selection, retention, and dismissal of its staff, and
  - g. statutory access to records and documents that relate to the agency, program, or function being audited.
- .19 If the head of the audit organization concludes that the organization has all the safeguards listed above, the audit organization may be considered free from organizational impairments to independence when reporting externally. The

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audit organization should document the statutory provisions in place that provide these safeguards. The external quality assurance reviewer will review these provisions to determine whether the necessary safeguards are present.

- .20 When using the work of other auditors who meet these requirements, the auditor should request a representation letter (see paragraph 650.14) from the head of the audit organization. The auditor should review the above documentation and discuss it with the head of the audit organization. He or she also may discuss the matter with the external quality assurance reviewer, legal counsel for the audit organization, and his or her own legal counsel.
- .21 If the auditor decides that the government audit organization is not organizationally independent to report externally (either because it does not meet the criteria in GAGAS or for another reason), the auditor should determine whether the other auditors are organizationally independent to report internally. These auditors are internal auditors. The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." GAGAS contain guidance on organizational independence for government internal auditors. For example, internal auditors should be outside the staff or line management function of the unit under audit. They should report their results and be accountable to the head or deputy of their agency. IIA standards require internal auditors to be objective for the activities they audit. These GAGAS and IIA standards of independence for internal auditors differ from independence under the AICPA Code of Professional Conduct or independence for external auditors under GAGAS. The auditor generally should determine whether the internal auditors whose work is to be used are independent of the activities they audit. The auditor also should consider the organizational status of the head of the audit organization. For the audit organization to be considered free from organizational impairments to report internally to management, the head of the audit organization (GAGAS, chapter 3) should meet **all** of the following criteria:
- a. accountable to the head or deputy head of the government entity,
  - b. required to report the results of the audit organization's work to the head or deputy head of the government entity, and
  - c. located organizationally outside the staff or line management function of the unit under audit.

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- .22 If the auditor concludes that the internal auditors are not independent under GAGAS and IIA standards, the auditor should treat the work as if the auditee prepared it. If the auditor concludes that the internal auditors are independent under GAGAS and IIA standards, the auditor may use their work to the extent permitted by AU 322. In either case, the auditor may not issue a report referring to or concurring with the work of internal auditors.
- .23 In addition to evaluating the other auditors' organizational independence, the auditor should evaluate whether the audit team has any personal impairments. For both internal auditors and organizationally independent government audit organizations, the auditor generally should ask how the other auditors monitor the personal independence of individual staff members, especially those doing the work the auditor would like to use.
- .24 The auditor should document the work performed and the conclusions reached as to independence and objectivity. The documentation should indicate the auditor's conclusion as to whether the other auditors are independent and objective and the basis for that conclusion. The auditor should consult with the Reviewer if there are questions about the other auditors' independence or objectivity.

**EVALUATING THE OTHER AUDITORS' OR SPECIALISTS' QUALIFICATIONS**

- .25 After evaluating the other auditors' or specialists' independence and objectivity, the auditor should evaluate the other auditors' or specialists' qualifications to perform the specific tasks required. This involves evaluating the qualifications of the firm or audit organization and evaluating the qualifications of the specific audit team. Where the auditor has previously used the work of the same other auditors, the auditor generally should update the previous evaluation.
- .26 For CPA firms and specialists, qualifications are generally evaluated through the contracting process. The firm submits resumes for the audit team and demonstrates why its team is qualified to do the work. CPA firms should be asked to submit their latest peer review report (or inspection report specified by the Public Company Accounting Oversight Board), letter of comments, and response to the peer review report. The firm generally submits its plan for doing the work. The purpose of the technical evaluation panel under the contracting process is to select a qualified firm.
- .27 Where the auditor did not participate in the contracting process, the auditor should consider how the qualifications of the firm were evaluated. For example, did the evaluation panel review resumes of the team; review the audit approach;

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and read the peer review report, the related letter of comments, and the firm's response to the peer review report? The auditor should read these documents and reach a conclusion as to qualifications.

- .28 For auditors other than CPA firms, the auditor should ask whether the audit organization had a peer review and the date of that review. IGs have peer reviews performed every 3 years by other IGs. Most state auditors also have peer reviews every 3 years. To comply with GAGAS, the audit organization should have a peer review every 3 years. The IIA standards indicate that, "[e]xternal assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization." While reviews under the IIA standard are not designed to report whether the audit organization's quality control adheres to GAGAS, they do provide evidence about whether the work adheres to a recognized set of professional standards. The auditor should read the peer review report, the letter of comments, and the audit organization's response. Where the audit organization has received an unqualified peer review report recently (usually less than 1 year ago), further review of the audit organization's qualifications is generally not required.
- .29 Where the peer review report is not recent, the auditor also should review the results of the audit organization's internal inspection program. If the peer review is not recent, the inspection is important in highlighting new quality control issues. The inspection generally should include reviews of documentation, interviews of staff members, and tests of functional areas. Where the inspection is recent (usually within the past year) and the inspection report is unqualified, further review of the audit organization's qualifications is generally not required.
- .30 Where the peer review or inspection report is qualified or adverse, the auditor should evaluate whether the quality control system has since been strengthened to allow the auditor to use the other auditors' work. The auditor may review the organization's action plan for improving quality controls. Inspection results are helpful in determining whether quality controls have improved since the peer review. The auditor should consider the effect of the remaining weaknesses in determining the nature and extent of procedures the auditor will perform.
- .31 Where the peer review is not recent and there is no inspection program, the auditor generally should obtain an overview of the important policies and procedures in the functional areas:
- independence, integrity, and objectivity (see above);

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- personnel management (includes recruiting and hiring, advancement, professional development and training, and assigning personnel to assignments);
  - audit performance (includes supervision and consultation);
  - acceptance and continuance of assignments; and
  - monitoring programs.
- .32 This information usually is obtained through interviews of the audit organization's management and staff and through reading the audit organization's quality control summary document, if one has been written. The auditor also may read the organization's manuals and other guidance for conducting audits.
- .33 In addition to evaluating the audit organization's qualifications, the auditor also should evaluate the overall qualifications of the other auditors' team assigned to do the work. Reviewing resumes of key team members may accomplish this. The auditor should consider the specific education, training, certifications, and experience of key team members. In evaluating qualifications, the auditor should consider the specific role of staff members on the job. When the auditor has knowledge of qualifications from prior experience with key team members, the auditor should inquire about experience in the time since the last audit.
- .34 Where the auditor is not fully satisfied as to the other auditors' qualifications, the auditor generally should perform a more detailed review of the documentation and/or perform supplemental tests of key line items (see paragraph 650.36). The auditor also may help the other auditors improve future audits.
- .35 If the auditor has significant concerns about the other auditors' independence, objectivity, or qualifications, the auditor should revise the audit approach. For example, the auditor may:
- contract with another firm,
  - ask the other auditors to substitute more highly qualified or objective staff members,
  - do the audit without using the other auditors' work, treating any work done by the other auditors as prepared by the auditee,
  - divide the work so that the other auditors test the areas where they are qualified, and the auditor does the rest of the audit, or
  - issue a disclaimer of opinion.

**PLANNING THE REVIEW AND TESTING OF THE OTHER AUDITORS'  
OR SPECIALISTS' WORK**

- .36 After evaluating the other auditors' or specialists' independence, objectivity, and qualifications, the auditor should develop a written plan for reviewing and, if necessary, testing the work done. This plan documents the level of review the auditor believes necessary. The level of review is high,<sup>9</sup> moderate, or low.<sup>10</sup> The plan should be reconsidered as the work progresses. The level of review is a judgment the auditor makes; this judgment generally should be made for each material line item and should consider the following factors:
- a. The type of report or letter the auditor will issue (less review is needed for a transmittal letter than for reports in which the auditor takes responsibility for the other auditors' work). (See paragraph 650.10.)
  - b. Whether the other auditors issue a disclaimer of opinion because of a scope limitation (less work is needed to concur with a scope limitation than to concur with an unqualified opinion). (See paragraph 650.37.)
  - c. Whether the auditor's report might contain a disclaimer because of a scope limitation (less work is needed if the auditor's report will contain a scope limitation). (See paragraph 650.39.)
  - d. The other auditors' independence, objectivity, and integrity (both for the audit team and for the other audit organization) including whether the other audit organization is an independent auditor or an internal auditor (the level of review increases as independence, objectivity, and integrity decreases).
  - e. The other auditors' qualifications to perform the work the auditor wishes to use (both for the audit team and for the other audit organization) (the level of review increases as the other auditors' qualifications decrease).

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<sup>9</sup> Some situations may require significantly more work than the work shown for the high level. In those situations, the auditor generally should perform significant supplemental tests; in some cases, the audit may be a joint audit.

<sup>10</sup> In some situations, the auditor may decide less review or no review is necessary. These situations typically involve entities or line items that are very small in relation to the financial statements taken as a whole. In these situations the auditor may decide to read the other auditors' report and the financial statements and ask questions if anything seems unusual.



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- f. The auditors' prior experience with the other auditors (both for the audit team and for the other audit organization) (the level of review decreases as the auditor has favorable experience in working with the other auditors).
  - g. The materiality of the line item in relation to the financial statements the auditor is reporting on, taken as a whole (the level of review increases as the line item becomes more material).
  - h. The combined risk (combination of inherent risk and control risk) and the risk of material fraud for the line item and assertion in the financial statements the other auditors are auditing (the level of review increases as the combined risk and the risk of material fraud increase).
- .37 If the other auditors' work had a scope limitation, this generally affects the level of review (except for transmittal letters with no assurance). If the other auditors disclaim an opinion on the financial statements because of a scope limitation, the auditor should issue a disclaimer of opinion (unless the financial statements the other auditors audited are not material to the financial statements the auditor is auditing). It will not take much review to be satisfied that the disclaimer is appropriate. Discussions with entity management and/or supplemental tests are not required in this situation, and the review of documentation may be limited to summary documentation. Thus, the level of review is usually low or no review (see footnote 6). However, the auditor may decide to do additional work to learn about the entity, to help the other auditor plan future audits, or to help management correct the causes of the scope limitation.
- .38 If the other auditors' work had a scope limitation that results in a qualified opinion, this generally needs a moderate or high level of review to determine whether the other auditors should have disclaimed an opinion and that the only issues are those relating to the qualification.
- .39 A scope limitation on the auditor's work that results in a disclaimer also may affect the level of review. Since the auditor has already decided that not enough work can be done on the overall financial statements, no amount of review of the other auditors' work is likely to change that conclusion. Thus, as in the situation above, discussions with entity management and/or supplemental tests are not required, the review of the other auditors' documentation may be limited to summary documentation, and the level of review is usually low or no review (see footnote 6). However, the auditor may decide to do additional work to learn about the entity, to help the other auditor plan future audits, or to help management correct the causes of the scope limitation.

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- .40 A scope limitation on the auditor's work that results in a qualified opinion needs a similar amount of work as an unqualified opinion.
- .41 Section 650 A illustrates the work that generally should be performed for each level of review for each significant line item as well as what to retain in the documentation.

**REVIEW OF DOCUMENTATION**

- .42 The extent of the auditor's review of the other auditors' or specialists' documentation depends on the level of review and is a judgment based on the factors in paragraph 650.36. For the low level of review, the review of documentation may be limited to key summary planning and completion documentation. For the moderate level, the auditor generally should review more of the other auditors' or specialists' documentation, especially those evidencing important decisions. For financial statement audits, these include the General Risk Analysis (GRA) or audit plan or equivalent documents; the Account Risk Analysis (ARA) (or equivalent documentation) for significant accounts; the Specific Control Evaluations (SCE) (or equivalent documentation) for significant applications; the documentation for high-risk accounts, estimates, and judgments; the analytical procedures; the audit completion checklist (or equivalent documentation); the audit summary memorandum; and the summary of possible adjustments. For the high level of review, the auditor generally should review all of the items for the moderate level of review plus the important detailed documentation.

**DISCUSSIONS AND/OR SUPPLEMENTAL TESTS WHERE LEVEL OF  
REVIEW IS HIGH**

- .43 AU 543.13 states: "In some circumstances the principal auditor may consider it appropriate to participate in discussions regarding the accounts with management personnel of the component whose financial statements are being audited by other auditors and/or to make supplemental tests of such accounts." "In some circumstances" is interpreted to mean when the level of review is high. Thus, where the level of review is high, the auditor should (1) review audit documentation and (2) hold discussions with auditee management and/or perform tests of original documents. The objective of these additional procedures is for the auditor to obtain additional evidence about whether key items are properly handled and well supported. For example, the auditor generally should discuss key items with auditee management, especially estimates and judgments; this discussion generally should be with the other auditors present. The auditor generally should attend the entrance and exit conferences and other key meetings held by other auditors or specialists. The

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auditor should consider that for key items that are high risk, discussions with management may not provide sufficient evidence and supplemental tests may need to be performed.

- .44 Supplemental tests may be a selection of the other auditors' work, additional tests of the accounting records, or both. To perform supplemental tests, the auditor should have access to the entity's personnel and their books and records. The auditor may coordinate access to the entity's personnel and records through the other auditor. The auditor and the other auditor also may jointly perform parts of a test, where the sample is planned jointly and the results are evaluated jointly. Although supplemental tests are usually performed only when the level of review is high, the auditor may decide to perform supplemental tests in other situations to learn about the entity, to help the other auditor plan future audits, or to help management correct problems.
- .45 Where the other auditor is an internal auditor, the auditor should perform supplemental tests. Accordingly, for internal auditors, supplemental tests generally should be of greater scope (see AU 322.26).
- .46 The auditor generally should limit discussions with entity management and/or supplemental tests to line items that are both high combined risk and material to the financial statements the auditor is reporting on, especially in areas involving estimates and judgments or in areas on which users place extensive reliance. The auditor's supplemental tests generally should include some items that the other auditor tested that appear to be exceptions to determine whether they were appropriately considered in formulating an opinion. The auditor should consider performing supplemental tests while the other auditors are at the auditee location and have access to records; this can minimize the inconvenience to the auditee.
- .47 It is not necessary to perform supplemental tests of the work of specialists. As indicated in AU 336.12, the auditor should understand the methods and assumptions used by the specialists, test the data provided to the specialists (extent of testing is based on risk and materiality), and evaluate whether the specialists' findings support the financial statement assertions. If the auditor believes the findings are unreasonable, the auditor should apply additional procedures and/or consider the need to obtain another specialist.

**SUBSEQUENT EVENTS REVIEW AND DATING OF THE AUDITOR'S REPORT**

- .48 The auditor's report should be dated when the auditor completes fieldwork. If the other auditors' or specialists' report is dated earlier and the auditor's report

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does not mention the other auditors' report or concurs with the other auditors' report (example 2 of section 650 C), the subsequent events review should be updated to the date of the auditor's report. The auditor may ask the other auditors to update the subsequent events work to the required date, or the auditor may update the subsequent events review. Since this requires additional work, the auditor should attempt to complete fieldwork when the other auditors complete fieldwork. This issue should be considered in planning. It is not necessary to update the subsequent events review when the auditor issues a transmittal letter (example 1 of section 650 C).

**STAFFING THE REVIEW OF THE OTHER AUDITORS' OR SPECIALISTS' WORK**

- .49 When staffing the review, the auditor should consider that the other auditors or specialists may already have reviewed the work at several levels. The auditor's staff reviewing the work generally should have enough experience in financial statement auditing to understand the judgments that need to be made and to interact with the higher levels of the other audit organization. Most of the review generally should be done by or under the direction of an assistant director or a manager who has significant experience in performing and reviewing financial statement audit work. Supplemental tests may be done by less experienced staff members and supervised by an assistant director or an experienced audit manager. Primary review of the experienced audit manager's or assistant director's documentation should be performed by the audit director or an assistant director designated by the audit director. However, the assistant director or audit manager should review the documentation of supplemental tests performed by the less experienced staff members. Because of the high level of financial statement auditing experience of staff members doing and reviewing this work, secondary review should be performed only in very high-risk situations.
- .50 When the other auditors' work involves the review of computer controls, an information systems auditor in a management role generally should do the auditor's review. An audit assistant director should review the information systems auditor's documentation to determine that related audit objectives were achieved.

**EVALUATING THE WORK**

- .51 After the auditor has completed the review of the other auditors' work, and, if necessary, the supplemental testing, the auditor should determine whether the work is sufficient and acceptable for the auditors' use. The auditor should summarize the evaluation in the audit summary memorandum.

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- .52 Sometimes, the other auditors use methodologies or audit approaches that are different from those the auditor would have used. The auditor should recognize that auditing requires a great deal of professional judgment and that there often are alternative ways to achieve audit objectives. Thus, the auditor should first understand the basis for the nature, timing, and extent of the other auditors' procedures. The auditor should evaluate whether sufficient evidence has been obtained to meet the auditor's objectives; usually the auditor should consider materiality and combined risk for the particular line item in this evaluation. If the auditor has concerns about whether the other auditors' work provides sufficient evidence, the auditor should discuss the matter with the audit director and the Reviewer before formally discussing the issue with the other auditors.
- .53 The auditor should consider the significance of the test results to the audit of the financial statements the auditor is reporting on. As an example, the other auditors might have selected a nonstatistical sample and/or the sample size might be smaller than the sample size the auditor would have selected. The auditor might decide that this provides sufficient evidence in an area that is less material or is not risky. However, if the area is material or risk is high, the auditor might conclude that sufficient evidence has not been obtained and that additional work is needed. In this case, after consulting with the audit director and the Reviewer, the auditor generally should either ask the other auditors to perform additional tests or perform the additional tests; if the additional testing is not done, the auditor should consider the effect of this scope limitation on the auditor's report. Since reaching this conclusion after the work is performed is inefficient, when the level of review is high, the auditor generally should coordinate or concur with major planning decisions before audit work is started.
- .54 Sometimes, the auditor may disagree with the conclusions or judgments of the other auditors. In this case, the auditor should consider the other auditors' work as well as any other evidence necessary to determine the appropriate conclusion.
- .55 The auditor should then discuss the issue with the other auditors to attempt to resolve the disagreement. It is important to attempt to resolve disagreements to reduce confusion that may arise from differing auditor views. In planning the audit, the auditor should try to identify potential disagreements early. Once identified, the auditor should discuss the issues with the other auditors as early as possible so that they can be resolved timely.
- .56 If the auditor does not reach agreement with the other auditors, the auditor should consider how to report. For very material disagreements, the auditor may decide not to transmit the other auditors' report, instead issuing a disclaimer of opinion due to a scope limitation or doing additional work, if necessary, to issue

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an appropriate opinion. In less material disagreements, the auditor may transmit the other auditors' report, issue the transmittal letter or report, and describe the disagreement and the basis for the auditor's conclusions.

**DOCUMENTING THE REVIEW OF OTHER AUDITORS' OR SPECIALISTS' WORK**

- .57 Regardless of the type of reporting or the level of review, the auditor's documentation should contain the items listed in section 650 A under "documentation."
- .58 In addition, where the auditor performs supplemental tests of the accounting records, the auditor's documentation should contain a description of the work (this may be a list of the documents the auditor examined or tick marks on a copy of the other auditors' documentation if that is the basis for the selection) and the auditor's conclusion. It is not necessary to retain copies of the documents examined.
- .59 It is important to distinguish between the auditor's responsibilities to review the documentation of other auditors versus what the auditor might copy and retain from that documentation. The auditor should use judgment in deciding which of the other auditors' or specialists' documents to copy and retain. Copies of documents readily available from the other auditors or the auditee (such as invoices and contracts) need not be retained. Section 650 A indicates what documentation the auditor generally should retain.
- .60 The auditor may decide to retain other documentation if it might be useful in understanding the entity, training staff members, planning future audits, reviewing the documentation, or writing the report. Documentation in this category includes the entity profile (or equivalent), the general risk analysis or audit plan, the audit programs, the ARA and SCE forms (or equivalent), the trial balance or lead schedules, the management representation letter, and the attorney representation letter. Auditors often find it helpful to keep copies of documents in case questions are raised in review but not to include those copies in the documentation unless they are needed to document the work performed. Documents should not be retained if they are no longer needed. The audit plan or audit program may indicate which documents to retain.

**USING INTERNAL AUDIT STAFF TO PROVIDE DIRECT ASSISTANCE TO THE AUDITOR**

- .61 Sometimes the auditor or the auditee requests that internal auditors provide direct assistance to the auditor. Before this is done, the auditor should be

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satisfied with the independence, objectivity, and qualifications of the staff assigned to do the work requested. AU 322.27 indicates that in these situations "the auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of procedures.... The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention." The auditor should direct, review, test, and evaluate the work done by internal auditors to the extent appropriate based on the auditor's evaluation of risk, materiality, objectivity, and qualifications.

**USING AGENCY SPECIALISTS**

- .62 Many agencies have actuaries, security specialists, statistical specialists, and other specialists whose work the auditor would like to use. Unless these specialists are part of an organization that is organizationally independent or under contract to such an organization, the auditor should evaluate their work as the work of any auditee employee. The auditor generally should use specialists in the audit organization or contract for outside specialists to develop and implement appropriate tests.

**MULTIPLE LEVELS OF OTHER AUDITORS**

- .63 Sometimes there are several levels of other auditors. For example, the IG might hire a CPA firm to do an audit. The IG may issue a report concurring with the CPA's report or a letter transmitting the CPA's report; GAO may then use the work of the IG.
- .64 In these situations, each audit organization should follow the guidance in section 650. The IG should evaluate the independence (see paragraphs 650.11-. 24) and qualifications of the other auditors (see paragraphs 650.25-. 35), should review the audit documentation (see paragraph 650.42), and may need to have discussions with entity management and/or perform supplemental tests of key accounts (see paragraphs 650.43-. 47) (depending on the level of review deemed appropriate). GAO should evaluate the qualifications of the IG organization (by reading the peer review report, the letter of comments, and the audit organization's response as described in paragraph 650.25) and the team doing the monitoring, should review the IG's documentation, and may perform supplemental tests. When GAO finds that the IG has done and documented adequate work including discussions with management and/or supplemental tests, GAO's discussions and/or supplemental tests would be quite limited—perhaps a walk-through of work done in high-risk and material areas. Often, GAO may attend fewer meetings than the IG staff attends and would concentrate

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the review on the IG's documentation. GAO may then issue a report on the financial statements.

- .65 Because of the potential for inefficiency, there should be close coordination between the various auditors. The IG and GAO may perform the review jointly. Sometimes, a memorandum of understanding might be useful in documenting responsibilities. A chart that describes the review to be done by each organization may be useful. The following is a useful format for this chart (with more detail added as necessary under each phase):

Phase	Procedures		
	Other auditor	IG review	GAO review
Planning			
Internal control			
Testing			
Reporting			

**REPORTS ON OTHER AUDITORS' WORK**

- .66 The auditor may be asked to issue a report evaluating work done by other auditors in a situation where the auditor is not using the work of the other auditors. For example, the auditor might be asked to evaluate an audit done by a CPA firm. While AU 543, 322 and 336 are not directed towards these situations, the guidance in FAM 650 is helpful in planning and reporting on these assignments.



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### **650 A - SUMMARY OF AUDIT PROCEDURES AND DOCUMENTATION FOR REVIEW OF OTHER AUDITORS' WORK**

- .01 The table in this section indicates the work that generally should be performed for each level of review, as well as what generally should be retained in the documentation. The table does not include work on other auditor's independence, objectivity, and qualifications. (See paragraphs 650.11-.35 for a discussion of that work.) Where the other auditor uses equivalent documents, review those documents.
- .02 In the table, steps to be performed and documents to be retained at the low level of review are indicated by regular font. The moderate level of review includes the low level plus those in **bold letters**. The high level of review includes the moderate level plus those in **BOLD CAPITALS**.

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650 A - Summary of Audit Procedures and Documentation for Review of  
Other Auditors' Work**

<b>AUDIT PROCEDURES</b>	
At entity level	For significant line items, accounts, or applications
<ul style="list-style-type: none"> <li>- Communicate with the other auditors:               <ul style="list-style-type: none"> <li>- as to the objectives of the work</li> <li>- <b>discuss their procedures and results</b></li> </ul> </li> <li>- <b>Attend key entrance and exit meetings</b></li> <li>- <b>COORDINATE OR CONCUR IN SIGNIFICANT PLANNING DECISIONS BEFORE MAJOR WORK IS STARTED</b></li> <li>- Review:               <ul style="list-style-type: none"> <li>- general risk analysis</li> <li>- audit plan</li> <li>- scope of work</li> <li>- audit summary memorandum</li> <li>- summary of unadjusted misstatements</li> <li>- analytical procedures</li> <li>- completion checklist</li> <li>- <b>determination of planning and design materiality</b></li> <li>- <b>information systems background</b></li> <li>- <b>general and application controls documentation (done by information systems auditor)</b></li> <li>- <b>representation letters</b></li> <li>- <b>key documentation</b></li> </ul> </li> <li>- Read:               <ul style="list-style-type: none"> <li>- other auditor's report</li> <li>- financial statements and notes</li> <li>- stewardship report and required supplementary information</li> <li>- other accompanying information</li> <li>- management's response</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Review:               <ul style="list-style-type: none"> <li>- audit program</li> <li>- conclusions about significant issues and their resolution (often in audit summary)</li> <li>- <b>account risk analysis (ARA)</b></li> <li>- <b>specific control evaluations (SCE)</b></li> <li>- <b>cycle memo</b></li> <li>- <b>flowcharts</b></li> <li>- <b>determination of test materiality</b></li> <li>- <b>sampling plan</b></li> <li>- <b>other auditors' key documentation</b></li> <li>- <b>documentation for high-risk accounts, estimates, and judgments</b></li> <li>- <b>analytical procedures</b></li> <li>- <b>evaluation of sample results</b></li> <li>- <b>summary of possible adjustments</b></li> </ul> </li> <li>- <b>PARTICIPATE IN DISCUSSIONS WITH MANAGEMENT PERSONNEL AND/OR PERFORM SUPPLEMENTAL TESTS OF THE LINE ITEMS (ESPECIALLY KEY ITEMS, ESTIMATES AND JUDGMENTS); COMPARE CONCLUSIONS</b></li> </ul>

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**650 A - Summary of Audit Procedures and Documentation for Review of Other Auditors' Work**

<b>DOCUMENTATION</b>	
Retain	Optional
<p>Auditor prepared:</p> <ul style="list-style-type: none"> <li>- audit plan</li> <li>- audit program</li> <li>- <b>memo documenting entrance and exit conference</b></li> <li>- <b>MEMOS DOCUMENTING KEY MEETINGS ATTENDED AND DISCUSSIONS WITH AUDITEE MANAGEMENT</b></li> <li>- <b>results of review of documentation</b></li> <li>- <b>SUPPLEMENTAL TEST DOCUMENTATION</b></li> <li>- summary memo</li> </ul> <p>Other auditor prepared:</p> <p>At entity level:</p> <ul style="list-style-type: none"> <li>- other auditor's report</li> <li>- final financial statements and notes</li> <li>- stewardship report</li> <li>- management letter</li> <li>- other auditor's unadjusted misstatements, estimate of the imprecision of audit procedures, and comparison with materiality</li> <li>- audit completion checklist</li> <li>- other auditor's audit summary memo</li> </ul> <p>At line item level:</p> <ul style="list-style-type: none"> <li>- documentation that supports exceptions</li> <li>- <b>other auditor's documentation evidencing significant judgments and conclusions</b></li> </ul>	<ul style="list-style-type: none"> <li>- entity profile</li> <li>- general risk analysis</li> <li>- other auditor's audit plan</li> <li>- other auditor's audit program</li> <li>- <b>account risk analyses</b></li> <li>- <b>specific control evaluations</b></li> <li>- <b>sampling plan</b></li> <li>- <b>trial balance</b></li> <li>- <b>lead schedules</b></li> <li>- <b>evaluation of sample results</b></li> <li>- <b>management representation letter</b></li> <li>- <b>legal representation letter</b></li> </ul>

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## Planning and General

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### 650 B - EXAMPLE AUDIT PROCEDURES FOR USING THE WORK OF OTHERS

This program is appropriate when using the work of other auditors or the work of specialists to perform a full or partial audit of financial statements. The steps should be tailored to the circumstances and the planned level of review by deleting inapplicable steps, modifying the steps, and adding additional steps. When the other auditors or specialists have done only part of an audit, many of the steps below may be deleted. Many of the steps also may be deleted for the low level of review or when the auditor plans to issue a transmittal letter. The program consists of three sections: evaluating independence, objectivity, and qualifications for CPA firms and specialists; evaluating independence, objectivity, and qualifications for government auditors; and monitoring the work (for all types of other auditors and for specialists). The auditor generally should use one of the first two sections and the third section. A separate form generally should be used for each other auditor or specialist.

Entity: \_\_\_\_\_

Job code: \_\_\_\_\_

Period of audit: \_\_\_\_\_

Step	Done by/date	W/P ref
<p><b>EVALUATING INDEPENDENCE, OBJECTIVITY, AND QUALIFICATIONS FOR CPA FIRMS AND SPECIALISTS</b></p> <p>1. Read the statement of work or request for proposal to determine whether this contracting document provides sufficient background on the auditee and indicates the objectives of the work, what the contractor should include in its proposal, how proposals will be evaluated, and how the report will be used.</p>		

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**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p><u>Independence and objectivity:</u></p> <p>2. Determine whether proposal of selected firm includes a representation as to the firm's independence and objectivity.</p>		
<p>3. If proposal does not include a representation as to independence and objectivity, obtain written representation from firm.</p>		
<p><u>Qualifications:</u></p> <p>4. Read proposal of selected firm. In reviewing proposal, evaluate the overall qualifications of the team performing the work. Review resumes and consider for key team members their educational level, professional certifications, and professional experience (including whether key team members have current knowledge and experience in the type of work done).</p>		
<p>5. If the auditor does not know the qualifications of the selected firm, review peer review report, letter of comments, and response letter.</p>		
<p>6. Communicate orally or in writing with the other auditors to be satisfied that they understand the requirements, the timetable, and the report or letter the auditor expects to issue.</p>		

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**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p><b>EVALUATING INDEPENDENCE, OBJECTIVITY, AND QUALIFICATIONS FOR GOVERNMENT AUDITORS</b></p> <p><u>Independence and objectivity:</u></p> <p>1. For all government audit organizations, obtain written representation from the head of the audit organization that the audit organization and the individual auditors are independent of the entity being audited.</p>		
<p>2. Determine whether the audit organization meets ONE of the criteria in paragraph 650.15, or the head meets ONE of the criteria in paragraph 650.16.</p> <p>If the organization (or its head) meets one of these criteria, no further work is needed unless the auditor finds contrary evidence as to independence and objectivity in other parts of the audit. Indicate which criterion is met; document the evaluation of any other evidence obtained. (Go to step 6.)</p>		
<p>3. If the audit organization (or its head) does not meet any of the criteria in step 2, determine whether it meets ALL of the criteria in paragraph 650.18.</p>		
<p>4. Review the audit organization's documentation of how it meets the requirements of step 3. Discuss with head of audit organization (consider discussing with external quality control reviewer, legal counsel for audit organization, and auditor's legal counsel). (Go to step 6.)</p>		

**Planning and General**  
**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p>5. If the audit organization does not meet the criteria for organizational independence to report externally, determine whether the organization is an independent internal audit organization under GAGAS and IIA standards. Determine whether the internal auditors are objective for the activities they audit. Consider the organizational status of the head of the audit organization, including whether the head</p> <ul style="list-style-type: none"> <li>• is accountable to the head or deputy head of the government entity,</li> <li>• is required to report the results of the audit organization's work to the head or deputy head of the government entity, and</li> <li>• is located organizationally outside the staff or line management function of the unit under audit.</li> </ul>		
<p>6. For all government audit organizations, obtain an understanding of organization's policies to enhance the objectivity of individual auditors, including</p> <ul style="list-style-type: none"> <li>• policies to prohibit auditors from auditing areas where relatives are employed,</li> <li>• policies to prohibit auditors from auditing areas where they were recently assigned or are scheduled to be assigned after they complete their tour of duty in auditing, and</li> <li>• policies to require representations as to objectivity and lack of conflicts of interest from each auditor.</li> </ul>		
<p>7. Prepare memorandum documenting work performed and conclusions as to independence and objectivity.</p>		



**Planning and General**  
**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p><u>Qualifications:</u></p> <p>8. Read the latest peer review report, letter of comments, and the audit organization's response. Note date of report and whether it is unqualified. If report is recent (usually within the past year) and unqualified, go to step 12.</p>		
<p>9. If the peer review is not recent, review the latest inspection report, if any, and the organization's response. Note date of report and whether it is unqualified. If the inspection is recent (usually within the past year) and unqualified, go to step 12.</p>		
<p>10. If the organization has not had a recent peer review or inspection, obtain an overview of the important policies and procedures in the functional areas (through interviews of management and staff and through reading the summary quality control document, if any). Consult with Reviewer before performing this step.</p>		
<p>11. If the peer review or inspection report was qualified or adverse, determine whether the quality control system has since been strengthened. Review the organization's action plan for strengthening its quality control system. Consider the effect of remaining weaknesses in determining the level of review.</p>		

**Planning and General**  
**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p>12. Inquire how the audit organization determined the staffing for the audit. Evaluate the overall qualifications of the team performing the work. Review resumes and consider for key team members:</p> <ul style="list-style-type: none"> <li>• educational level, professional certifications, and professional experience;</li> <li>• continuing professional education, especially whether key team members have received training and have current knowledge in the type of work done;</li> <li>• supervision and review of work;</li> <li>• whether the audit team has adequate sources for consultation and use of specialists, especially for audit sampling, audit methodology, and review of computer controls; and</li> <li>• quality of documentation, reports, and recommendations.</li> </ul>		
<p>13. If the auditor has significant concerns about the audit organization's or team's objectivity or qualifications, the auditor, in developing the audit plan, may either</p> <ul style="list-style-type: none"> <li>• ask the audit organization to substitute more objective or highly qualified staff members;</li> <li>• do the work, treating any work done by the other auditors as prepared by the auditee;</li> <li>• divide the work so that the other auditors test the areas where they are qualified and the auditor does the rest of the audit; or</li> <li>• issue a disclaimer of opinion.</li> </ul>		

**Planning and General**  
**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p><b>MONITORING THE WORK (FOR ALL TYPES OF OTHER AUDITORS AND FOR SPECIALISTS)</b></p> <p>1. Develop a plan for reviewing the other auditors' or specialists' work and, if necessary, performing supplemental tests of the accounting records. Determine the level of review for each line item.</p>		
<p>2. Monitor the planning of the audit (FOR MODERATE AND HIGH LEVEL OF REVIEW).</p> <ul style="list-style-type: none"> <li>• Attend entrance meeting and key planning meetings.</li> <li>• Review the entity profile.</li> <li>• Review the General Risk Analysis or equivalent document (and audit plan if prepared as a separate document) (FOR ALL LEVELS OF REVIEW).</li> <li>• Review the determination of planning materiality and design materiality.</li> <li>• Have an information systems auditor review the information resource management background information and the documentation for review of general and application controls.</li> <li>• Document line items and applications to be reviewed.</li> <li>• For each such line item, review the Account Risk Analyses, the Specific Control Analyses, the cycle flowcharts, the cycle memoranda, the determination of test materiality, and the audit program or equivalent documents.</li> </ul>		

**Planning and General**  
**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p>3. Monitor the execution of the audit (for reports following example 2 of section 650 C or section 595 A and/or B WHERE LEVEL OF REVIEW IS HIGH).</p> <ul style="list-style-type: none"> <li>• Attend key meetings, especially those discussing high-risk areas, significant estimates and judgments, and the other auditors' conclusions.</li> <li>• Discuss key items with auditee management, especially significant estimates and judgments.</li> <li>• Perform supplemental tests of the accounting records.               <ul style="list-style-type: none"> <li>•• Generally do for high risk and material line items, especially in areas involving estimates and judgments or ones that users rely on extensively.</li> <li>•• Generally do while the other auditors are at the auditee location and have access to the records.</li> <li>•• Examine some of the same documents the other auditors examined or make own selection or both.</li> <li>•• Compare results of other auditors' work to results of supplemental tests.</li> <li>•• Document scope of supplemental testing and conclusions reached.</li> </ul> </li> </ul>		

**Planning and General**  
**650 B - Example Audit Procedures for Using the Work of Others**

Step	Done by/date	W/P ref
<p>4. Monitor the completion of the audit (items with * are usually not necessary for LOW level of review)</p> <ul style="list-style-type: none"> <li>• Review the overall analytical procedures.</li> <li>• *Review the key documentation for the line item and for completing the audit; consider evaluations of sample results. (For example, were projections appropriate? Was appropriate action taken based on sample results?)</li> <li>• *Determine whether the subsequent events review was updated to the date of the auditor's report.</li> <li>• Review the audit summary memorandum, conclusions about line items, and summary of possible adjustments.</li> <li>• Review the audit completion checklist (or equivalent document).</li> <li>• Review the management representation letter and the legal representation letter.</li> <li>• *Attend key exit conference(s).</li> <li>• Read the other auditors' report, the financial statements, the notes, the other accompanying information, and management's response.</li> </ul>		
<p>5. Prepare summary memorandum.</p>		
<p>6. Write the auditor's report or transmittal letter.</p>		

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## Planning and General

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### 650 C - EXAMPLE REPORTS WHEN USING THE WORK OF OTHERS

#### EXAMPLE 1 – TRANSMITTAL LETTER

We contracted with the independent certified public accounting firm of [name of firm] to audit the financial statements of [name of entity] as of [date] and for the year then ended. The contract required that the audit be done in accordance with generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*.

In its audit of [name of entity], [name of CPA firm] found

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- [entity] had effective<sup>1</sup> internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- [entity's] financial management systems substantially complied<sup>2</sup> with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

[Name of CPA firm] also described the following significant matters:

[Discuss significant matters].

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<sup>1</sup> If the other auditors did not provide an opinion on internal control, change this to "there were no material weaknesses in internal control" (and include a definition of material weakness in a footnote).

<sup>2</sup> If the other auditors did not provide an opinion (i.e., did not give positive assurance) on whether the entity's systems complied with FFMIA, change this to "no instances in which entity's financial management systems did not substantially comply" (i.e., negative assurance).

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**Planning and General**  
**650 C - Example Reports When Using the Work of Others**

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[For transmittal letters expressing no assurance, use the following paragraph:]

[Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. We do not express opinions on [name of entity]'s financial statements or internal control or on whether [entity]'s financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations.

[For transmittal letters expressing negative assurance, use the following paragraph:]

In connection with the contract, we reviewed [name of CPA firm]'s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on [name of entity]'s financial statements or internal control<sup>3</sup> or on whether [entity]'s financial management systems substantially complied with FFMIA;<sup>4</sup> or conclusions on compliance with laws and regulations. [Name of CPA firm] is responsible for the attached auditor's report dated [date] and the conclusions expressed in the report. However, our review disclosed no instances where [name of CPA firm] did not comply, in all material respects, with generally accepted government auditing standards.<sup>5</sup>

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<sup>3</sup> If the other auditors did not provide an opinion on internal control, change this to read "conclusions about the effectiveness of internal control."

<sup>4</sup> If the other auditors did not provide an opinion on FFMIA, change "opinion" to "conclusions."

<sup>5</sup> If the auditor found that the other auditors did not comply with GAGAS, or if the auditor disagrees with the other auditors' conclusions, see paragraphs 650.54-.56.



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**Planning and General**  
**650 C - Example Reports When Using the Work of Others**

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**EXAMPLE 2 – REPORT CONCURRING WITH OTHER AUDITORS' OPINION (PRESENTING REPORT OF OTHER AUDITORS AFTER THE AUDITOR'S REPORT)<sup>6</sup>**

Under [citation of statute], we are responsible for auditing [name of entity]. To help fulfill these responsibilities, we contracted with [name of firm], an independent certified public accounting firm. [Name of firm]'s report dated [date] is attached.

We concur<sup>7</sup> with [name of firm]'s report that indicated:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- [entity] had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- [entity's] financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

Details of their conclusions are in their report.

OBJECTIVES, SCOPE, AND METHODOLOGY

Management is responsible for (1) preparing the financial statements in conformity with generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of 31 U.S.C. 3512 (c), (d) (Federal Managers' Financial Integrity Act) are met, (3) ensuring that [entity]'s financial management systems substantially comply with FFMIA requirements, and (4) complying with applicable laws and regulations.

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<sup>6</sup> This example assumes the other auditors opined on internal control and on whether the financial management systems substantially complied with FFMIA. If the other auditors provided negative assurance, appropriate changes should be made.

<sup>7</sup> If the auditor does not concur with the other auditors' report, see paragraphs 650.54-56.

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## Planning and General

### 650 C - Example Reports When Using the Work of Others

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We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, and (2) management maintained effective internal control, the objectives of which are the following:

- **Financial reporting:** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations:** Transactions are executed in accordance with 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 any other laws, regulations, and governmentwide policies identified by OMB audit guidance.

We are also responsible for (1) testing whether [entity's] financial management systems substantially comply with the three FFMLA requirements, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Accountability Report.

To help fulfill these responsibilities, we contracted with the independent certified public accounting (CPA) firm of [name of firm] to perform a financial statement audit in accordance with U.S. generally accepted government auditing standards; OMB's bulletin, *Audit Requirements for Federal Financial Statements*, and the GAO/PCIE *Financial Audit Manual*. We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of the CPA firm, met with partners and staff members, evaluated the key judgments, met with officials of [entity being audited], performed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. We conducted our work in accordance with U.S. generally accepted government auditing standards.

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## Planning and General

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### 660 – AGREED-UPON PROCEDURES

- .01 In an engagement to apply agreed-upon procedures, a client engages an auditor to perform specific procedures on subject matter and report on the results to assist users in evaluating subject matter or an assertion. Agreed-upon procedures should be performed in accordance with the Statements on Standards for Attestation Engagements (SSAE). The auditor should read appropriate sections (e.g., AT 101, *Attest Engagements*, and AT 201, *Agreed-Upon Procedures Engagements*) and thoroughly understand them before performing agreed-upon procedures.
- .02 An agreed-upon procedures engagement may be applied to a variety of subject matter. The engagement will vary depending on the needs of the user. The engagement may assist entity management by providing information for making decisions and give report users information on important areas. Examples of agreed-upon procedures are:
- compare payroll information reported to the Office of Personnel Management with the entity's payroll records and general ledger;
  - compare entity reconciliations of intragovernmental activity and balances with supporting documentation and compare amounts with the financial statements and with reports to the Department of the Treasury (Treasury);
  - trace tax collections from the master file to deposit confirmations, determine whether they were recorded in the appropriate period and in the correct tax class;
  - trace amounts on the entity's financial statements to an "account grouping worksheet," foot the worksheet, read the CFO's explanation for any differences, and compare the explanation with supporting documentation; and
  - examine official receipt documents to determine whether they were included in the weekly deposit; compare deposit amounts to amounts reported on the statement of funding.
- .03 In agreed-upon procedures engagements, all parties involved, which include the report users, the entity responsible for the subject matter (which may or may not be the same as the user), and the auditor, should clearly understand the procedures to be applied. Since users may have different needs, the nature, timing, and extent of the agreed-upon procedures also may differ. Therefore, the users, and not the auditor, assume the responsibility for the sufficiency of the

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**Planning and General**  
**660 – Agreed-Upon Procedures**

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design and extent of the procedures since they best understand their own needs, although the auditor may assist the user in designing the procedures.

- .04 The auditor should establish and document an understanding with the users regarding the nature, timing, and extent of the agreed-upon procedures to be performed. The auditor may document this understanding using an engagement letter to the users. (See example in section 660 A.)
- .05 The subject matter should be capable of evaluation against criteria that are suitable and available to users. Suitable criteria should have objectivity, measurability, completeness, and relevance. The procedures should be subject to reasonably consistent measurement and the criteria should be agreed upon. The auditor should not perform overly subjective procedures or use terms with uncertain meaning unless they are defined within the agreed-upon procedures.
- .06 The auditor need not perform additional procedures beyond the agreed-upon procedures. If matters come to the auditor's attention by other means that significantly contradict the subject matter (or assertion), the auditor should include these matters in the report. For example, if during the course of applying agreed-upon procedures regarding an entity's operation, the auditor becomes aware of a material weakness related to the assertion by means other than the agreed-upon procedures, the auditor should include this matter in the report. This may be done by mentioning the material weakness with a footnote reference to another report where it is described in detail.
- .07 Where circumstances impose restrictions on the performance of the agreed-upon procedures, the auditor should attempt to obtain agreement from the users of the report to modify the agreed-upon procedures. When agreement cannot be obtained (for example, when the agreed-upon procedures are published by a regulatory agency that will not modify the procedures), the auditor should describe restrictions in the report or withdraw from the engagement.

**WRITTEN REPRESENTATIONS**

- .08 The auditor should determine if a representation letter is necessary. The auditor may determine that a representation letter is necessary, for example, if (1) the responsible entity is so large there is a risk as to whether one person knows whether pertinent information has been made available to the auditor, (2) the subject matter depends on estimates, judgments, or future events (i.e., whether the subject matter is less objective and fact-based and more subjective), or (3) the user of the report believes written representations should be obtained. Although generally not required (unless specifically required by another attestation standard, such as in a compliance engagement) a representation letter

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**Planning and General  
660 – Agreed-Upon Procedures**

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may nonetheless be a useful means of documenting the responsible entity's representations. (See FAM section 660 B for an example representation letter for an agreed-upon procedures engagement.)

- .09 The responsible entity's refusal to furnish written representations determined by the auditor to be necessary constitutes a scope limitation. In such circumstances, the auditor should do one of the following:
- disclose in the report the inability to obtain representations from the responsible entity,
  - withdraw from the engagement, or
  - change the engagement to another form of engagement (e.g., a performance audit).

**DOCUMENTATION**

- .10 In accordance with GAGAS, the auditor should prepare and maintain documentation in connection with an agreed-upon procedures engagement that are appropriate for the engagement. They should contain sufficient information to enable an experienced auditor having no previous connection with the engagement to ascertain from them the evidence that supports the auditors' agreed-upon procedures report.
- .11 Although the quantity, type, and content of documentation varies with the circumstances, ordinarily it should be sufficient to demonstrate that the work was adequately planned and supervised and sufficient evidential matter was obtained to provide a reasonable basis for the report.
- .12 The auditor generally should prepare a summary memorandum that recaps the work performed and refers to the detailed documentation. This memorandum generally should include the auditor's conclusion on whether the work was performed in accordance with GAGAS, including the attestation standards, and the GAO/PCIE FAM and whether the report is appropriate. (See FAM section 660 C for an agreed-upon procedures completion checklist.)

**REPORTING**

- .13 An auditor should report on the agreed-upon procedures in the form of results. The auditor should not provide any opinion or negative assurance about whether the subject matter or the assertion is fairly stated based on the criteria. The report should include information such as the identification of the entities that

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**660 – Agreed-Upon Procedures**

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agreed to the procedures and took responsibility for the sufficiency of the design and extent of the procedures for their purposes, as shown in the example report in FAM section 660 D.

- .14 The auditor should report all results arising from application of the agreed-upon procedures. The concept of materiality does not apply to results to be reported in an agreed-upon procedures engagement unless the users of the report agree to the definition of materiality. This could be included in the engagement letter. Any agreed-upon materiality limits should be described in the report.
- .15 The auditor should include a statement indicating that the report is intended for the specified users who have agreed upon the procedures performed and taken responsibility for the sufficiency of the design and extent of the procedures for their needs. However, since governmental reports are generally a matter of public record, the distribution of the report is not limited.
- .16 The auditor may have performed agreed-upon procedures on an element, account, or item of financial statements and also audited the same financial statements. If the audit report on the financial statements includes a departure from a standard report, the auditor generally should include a reference to the audit report and the departure from the standard report in the agreed-upon procedures report.
- .17 The auditor also may include explanatory language about such matters as the following:
  - stipulated facts, assumptions, or interpretations (including the source);
  - description of the condition of records, controls, or data to which the procedures were applied;
  - explanation that the auditor has no responsibility to update the report; or
  - explanation of sampling risk.
- .18 The auditor should state the results in definitive, rather than qualified, language and avoid vague or ambiguous language. The following table provides examples of appropriate and inappropriate descriptions of findings.

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<b>Examples of appropriate/inappropriate description of findings</b>		
<b>Procedures agreed-upon</b>	<b>Description of findings</b>	
	<b>Appropriate</b>	<b>Inappropriate</b>
Based on the total tax liability, select and recompute the 50 largest excise tax returns from the quarter ended September 30 and compare these amounts with the certified audit file.	Recomputed amounts for the selected excise tax returns agreed with the amounts in the certified audit file.	Nothing came to our attention as a result of applying this procedure.
Select a random sample of 45 Treasury SF-224 reconciliations; determine if XYZ reported revenue receipts were properly classified and reconciled to Treasury FMS records.	Revenue receipts selected randomly from the monthly Treasury SF-224 reconciliation process were properly classified and agreed with Treasury FMS records.	The revenue receipts approximated the amount shown in the Treasury FMS records.
Examine personnel files of 40 individuals randomly selected from the timekeeping records for the year; determine if all the selected files contain a current and approved Notification of Personnel Action.	Thirty of the selected files contained a current and approved Notification of Personnel Action. Ten files did not contain a current and approved Notification of Personnel Action ( <i>list and identify exceptions</i> ).	Some of the personnel files did not contain a current and approved Notification of Personnel Action.

**Other Report Issues**

- .19 The report should be addressed to the users who have agreed upon the procedures to be performed (see paragraph 660.03). The date of completion of the agreed-upon procedures should be used as the date of the agreed-upon procedures report. If the audit organization's procedure is to date reports with the issue date, the date of completion of fieldwork may be stated in the report (e.g., "We completed the agreed-upon procedures on [date].").
- .20 Agency comments should be obtained from the entity responsible for the subject matter. If time constraints present problems, oral comments may be obtained.

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## Planning and General

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### **660 A - EXAMPLE AGREED-UPON PROCEDURES ENGAGEMENT LETTER**

[Date]

Management of ABC Agency

Subject: Fiscal Year 20X1 Agreed-Upon Procedures for the Tax Trust Fund

Dear Management Official:

Based on our discussions, we agree to perform agreed-upon procedures to assist ABC Agency in determining the completeness and accuracy of receipts transferred to the tax trust fund. XYZ Agency is responsible for the information to which these procedures will be applied.

This letter documents our agreement to perform these agreed-upon procedures related to fiscal year 20X1. We will perform these procedures in accordance with U.S. generally accepted government auditing standards, which incorporate the financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA). The procedures are included in the enclosure to this letter. We will meet with you as needed to discuss the agreed-upon procedures, results, and other issues that may arise.

We are not engaged to perform, and will not perform, an examination, the objective of which would be to express an opinion on the amount of receipts transferred to the tax trust fund. Accordingly, we will not express such an opinion. Were we to perform additional procedures, other matters might come to our attention that we would report to you.

Our report will be intended solely for your information and use and should not be used by those who have not agreed to the procedures or taken responsibility for the sufficiency of the procedures for their purposes. However, the report will be a matter of public record and its distribution will not be limited.

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**Planning and General**  
**660 A - Example Agreed-Upon Procedures Engagement Letter**

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Unless we hear from you, we will assume your concurrence with these procedures and their sufficiency for your purposes.<sup>1</sup> Please contact me at [telephone number] if you or your staff have any questions.

Sincerely yours,

[Name of Director]  
Director

Enclosure

cc: XYZ Agency

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<sup>1</sup> The auditor may request the users to document their agreement with the procedures and their sufficiency for their purposes by signing the engagement letter and returning it to the auditor.

**Agreed-Upon Procedures for Tax Receipts and Refunds**

**General**

- Compare fiscal year 20X1 tax collections for the ABC tax trust fund per XYZ's Statement of Custodial Activity with
  - the trust fund's accounting records and
  - ABC's consolidated financial statements.
- Obtain explanations and examine supporting documentation for differences.

**Sampling**

- A. Use dollar unit sampling (DUS) and an 80-percent confidence level to select a sample of ABC tax trust fund tax revenue receipts and refunds for fiscal year 20X1. Use \$300 million as the test materiality, which is 1 percent of the total revenue collected. Use an expected aggregate misstatement of \$100 million, or one-third of test materiality. The projected sample size for this population is expected to be 40 transactions.

For the sample items selected:

- Receipts testing — Compare tax receipts transactions (for example cash receipts, federal tax deposit (FTD) receipts, reversals, and adjustments) with source documents to determine whether the amounts agree, the transactions are recorded in the appropriate period based on the transaction date, and they are properly categorized as ABC tax trust fund receipts.
  - Refunds testing — Compare refund transactions with the source documents (for example, payment vouchers, FTD coupons, tax returns) to determine whether the amounts agree, the transactions are recorded in the appropriate period based on the transaction date, and they are properly categorized as ABC tax trust fund refunds.
- B. Use DUS and the same sampling parameters as above to extract statistical samples of total XYZ revenue receipts and refunds for fiscal year 20X1.

For the sample items selected:

- Test whether the tax receipt or refund amounts and tax category from source documentation agrees with amounts recorded for each of the revenue receipts or refunds sample items.

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## Planning and General

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### **660 B - EXAMPLE REPRESENTATION LETTER FROM RESPONSIBLE ENTITY ON AGREED-UPON PROCEDURES ENGAGEMENT**

[XYZ Agency letterhead]

[Date]

Dear Auditor:

In connection with the agreed-upon procedures engagement for XYZ's budget execution process for the period from October 1, 20X0 through September 30, 20X1, we confirm to the best of our knowledge and belief, the following representations made to you in performing these agreed-upon procedures.

- We acknowledge responsibility for XYZ's budget execution process.
- We acknowledge responsibility for selecting the criteria [state criteria] and for determining the appropriateness of the criteria for our purposes.
- Our budget execution process is [state assertion about budget execution process based on the criteria selected].
- We know of no matters that would contradict our assertion about our budget execution process.
- There have been no communications from regulatory or oversight agencies concerning our budget execution process or noncompliance with budgetary laws or the Antideficiency Act.
- We have made available to you all records and related data pertaining to our budget execution process during the period from October 1, 20X0 through September 30, 20X1.
- XYZ's budget execution process is designed to meet the requirements of the Antideficiency Act.
- The accounting records and fund status reports are checked quarterly to determine whether all source documents that affect the appropriation and fund balance have been recorded properly, accurately, and on a timely basis.

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**Planning and General**  
**660 B – Example Representation Letter from Responsible Entity on**  
**Agreed-Upon Procedures Engagement**

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- The agency's accounting system provides timely disclosure of total valid obligations incurred to date and total budgetary resources available for obligations within each apportionment.
- The system also provides timely disclosure of the authorization or creation of commitments, obligations, or expenditures that exceed apportionments and allotments.
- We are not aware of instances of noncompliance with the above-stated procedures.
- There has been no fraud involving management, employees, or contractor staff who have significant roles in the operation of our budget execution process.
- We have no plans or intentions that would materially affect our budgetary process or operations.

Sincerely yours,

Management, XYZ Agency

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## Planning and General

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### 660 C - AGREED-UPON PROCEDURES COMPLETION CHECKLIST

Entity: \_\_\_\_\_

Job code: \_\_\_\_\_

Principal report: \_\_\_\_\_

- .01 This checklist is a tool to help auditors comply with the requirements for agreed-upon procedures engagements. No specific signatures are required on the checklist in the planning phase.
- .02 Several of the last questions include steps in GAO's quality control process, including the GAO Audit Documentation Set, second partner review, and review by the Technical Accounting and Auditing Expert (Chief Accountant at GAO) when that person is not the second partner. GAO auditors should complete these questions and forms. IG auditors and other auditors may use these questions and forms or may substitute questions and forms that consider their reporting style and quality control.

Step	N/A	Yes	No	Ref.
1. Has the audit team documented an understanding with the individuals requesting the audit and officials of the entity?				
2. Does the documentation cover the following? <ul style="list-style-type: none"><li>• The nature of the engagement.</li><li>• Identification of the subject matter, the responsible entity, and the criteria.</li><li>• Identification of the users of the report.</li><li>• Auditor's responsibilities.</li><li>• Reference to GAGAS and the attestation standards.</li><li>• Agreement on the nature, timing, and extent of procedures.</li><li>• Anticipated reporting, including disclaimers.</li><li>• Any involvement of a specialist.</li><li>• Materiality limits.</li></ul>				

**Planning and General  
660 C - Agreed-Upon Procedures Completion Checklist**

Step	N/A	Yes	No	Ref.
3. Was an entrance conference held with the responsible entity?				
4. Has the auditor determined whether a letter of representation from the responsible entity is necessary? (Note: This is not a requirement.)				
5. Were applicable laws and regulations documented if part of the procedures?				
6. Were review responsibilities communicated to individuals on the assignment?				
<p>7. Does the documentation contain the following?</p> <ul style="list-style-type: none"> <li>a. The scope and methodology, including any sampling criteria used and consideration of the results of any previous agreed-upon procedures and follow up on any known significant findings that directly relate to the agreed-upon procedures engagement.</li> <li>b. Any indication of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, and—if there was such indication—the directed procedures performed, results obtained, and related communications.</li> <li>c. Descriptions of transactions and records examined.</li> <li>d. Documentation of the work performed to support reported results.</li> <li>e. Evidence of supervisory review.</li> </ul>				



**Planning and General**  
**660 C – Agreed-Upon Procedures Completion Checklist**

Step	N/A	Yes	No	Ref.
8. Does the documentation record that the applicable standards were followed (AT 101, AT 201, and GAGAS, chapter 6)?				
9. Does the documentation record a reasonable basis for the results of the agreed-upon procedures?				
10. Does the summary memorandum summarize the results of the procedures and refer to the documentation?				
11. Were any deviations from the standard reporting elements documented and the basis approved by the assistant director with copies of the documentation sent to the audit director and Reviewer (AT 201.31)?				
12. Was the report referenced?				

**Planning and General  
660 C - Agreed-Upon Procedures Completion Checklist**

Step	N/A	Yes	No	Ref.
<p>13. Did the assistant director review the following?</p> <ul style="list-style-type: none"> <li>a. Documentation of the understanding with the individuals requesting the audit and officials of the entity.</li> <li>b. Memorandum of entrance conference with the responsible entity.</li> <li>c. Completed work programs.</li> <li>d. Memorandums on key engagement issues.</li> <li>e. Summary of the results of the procedures.</li> <li>f. Memorandum of exit conference with the responsible entity.</li> <li>g. Deviations from standard reporting language.</li> <li>h. Financial schedules/statements.</li> <li>i. Agreed-upon procedures report.</li> <li>j. GAO Audit Documentation Set (or equivalent).</li> </ul>				

**Planning and General**  
**660 C – Agreed-Upon Procedures Completion Checklist**

Step	N/A	Yes	No	Ref.
<p>14. Did the audit director review the following?</p> <ul style="list-style-type: none"> <li>a. Documentation of the understanding with the individuals requesting the audit and officials of the entity.</li> <li>b. Summary of results of the procedures.</li> <li>c. Memorandum of exit conference with responsible entity.</li> <li>d. Deviations from standard reporting language.</li> <li>e. Agreed-upon procedures report.</li> <li>f. GAO Audit Documentation Set (or equivalent).</li> </ul>				
<p>15. Did the assistant director or the auditor in charge determine that all significant review notes were resolved appropriately?</p>				
<p>16. Did the assistant director initial all documentation bundle covers to indicate that all documentation was sufficiently reviewed?</p>				
<p>17. Is the report appropriate as to the following?</p> <ul style="list-style-type: none"> <li>a. Wording.</li> <li>b. Scope of work.</li> <li>c. GAGAS.</li> <li>d. Explanatory paragraphs.</li> </ul>				

**Planning and General**  
**660 C - Agreed-Upon Procedures Completion Checklist**

Step	N/A	Yes	No	Ref.
18. Was the report reviewed by the following?  a. Office of the General Counsel.  b. Technical Accounting and Auditing Expert.  c. Second partner (or equivalent), if not Technical Accounting and Auditing Expert.				
19. Is the agreed-upon procedures report dated appropriately or does the report indicate when the auditor completed fieldwork? (AT 201)				

Note: All "No" answers should be discussed in attached documentation. If the reason that a question is "Not Applicable" is not obvious, the auditor should document the reason on the checklist or in an attachment.

Date of completion of fieldwork \_\_\_\_\_

Audit Manager \_\_\_\_\_ Date \_\_\_\_\_

Assistant Director \_\_\_\_\_ Date \_\_\_\_\_

Audit Director \_\_\_\_\_ Date \_\_\_\_\_

**SECOND PARTNER'S (OR EQUIVALENT) CONCURRENCE ON  
AGREED-UPON PROCEDURES WORK**

**Objective of second partner (or equivalent) review:** To objectively review significant engagement matters to conclude, based on all facts the second partner (or equivalent) has knowledge of, that no matters were found that caused the second partner (or equivalent) to believe that (1) the procedures were not performed in accordance with GAGAS, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA), and (2) the report does not meet professional standards and audit organization policies.

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

- as necessary, discussed significant engagement issues with the audit director;
- read documentation of key decisions and consultations;
- read the agreed-upon procedures report; and
- confirmed with the audit director that there are no unresolved issues.

**Conclusions:** Based on all the relevant facts of which I have knowledge, I found no matters that caused me to believe that (1) the agreed-upon procedures were not performed in accordance with GAGAS and the AICPA's attestation standards related to agreed-upon procedures engagements and (2) the report is not in accordance with professional standards and audit organization policies.

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

**Title**

**Signature**

**Date**

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**Planning and General**  
**660 C - Agreed-Upon Procedures Completion Checklist**

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**TECHNICAL ACCOUNTING AND AUDITING EXPERT'S  
CONCURRENCE ON AGREED-UPON PROCEDURES WORK**

**Objective of review:** When the Technical Accounting and Auditing Expert is not the second partner (or equivalent), the Technical Accounting and Auditing Expert should read the report. The Technical Accounting and Auditing Expert should then sign the conclusions below.

**Conclusions:** Based on my reading of the report, I found no matters that caused me to believe that (1) the agreed-upon procedures were not performed in accordance with GAGAS and the AICPA's attestation standards related to agreed-upon procedures engagements and (2) the report is not in accordance with professional standards and audit organization policies.

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

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**Title**

**Signature**

**Date**

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## Planning and General

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### 660 D - EXAMPLE AGREED-UPON PROCEDURES REPORT

[Date]

Management of ABC Agency

Subject: Applying Agreed-Upon Procedures: Count of Cash and Related Items

Dear Management Official:

We have performed the procedures contained in the enclosure to this letter, which we agreed to perform and with which you concurred, solely to meet your needs for an independent count of cash and cash-related items as of September 30, 20X1.

We conducted our work in accordance with U.S. generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

You are responsible for the adequacy of the procedures to meet your objectives and we make no representation in that respect. The procedures we agreed to perform consist of counting amounts for cash and related receipts and comparing combined totals to the authorized amounts. The enclosure contains the agreed-upon procedures and our results.

We were not engaged to perform, and did not perform, an examination, the objective of which would have been to express an opinion on the amount of cash on hand. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed our agreed-upon procedures on [date of completion].

We provided a draft of this letter, along with the enclosure, to your representatives for review and comment. They agreed with the results presented in this letter and its enclosure.

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**Planning and General**  
**660 D - Example Agreed-Upon Procedures Report**

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This letter is intended solely for the use of the management of ABC Agency and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record and its distribution is not limited.

If you have any questions, please call [name, title, and telephone number].

Sincerely yours,

[Name of Director]  
Director

Enclosure



**RESULTS OF CASH COUNTS**

Procedures

We counted and totaled cash on hand for the petty cash fund as of [date]. We also listed and totaled the receipts on hand evidencing disbursements from the fund. Finally, we compared the combined total of cash and receipts available to the amount authorized for the fund (\$500).

Results

We counted cash totaling \$258.96 and scheduled 14 receipts totaling \$174.85. The combined total of cash and receipts on hand accounted for \$433.81 of the \$500 in authorized petty cash funds. In addition, the custodian provided us two separate Expense Summary Report and Petty Cash Itemization Sheets and related receipts for an additional \$65.09, which had been submitted for reimbursement to the fund. Thus, the unexplained difference between the authorized amount and the total cash and receipts evidencing petty cash fund disbursements was \$1.10.

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