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United States General Accounting Office  
Washington, DC 20548

Office of  
General Counsel

In Reply  
Refer to: B-189251

The Honorable Stewart B. McKinney  
House of Representatives

August 16, 1979

Dear Mr. McKinney:

This is in reply to your letter of July 19, 1979, to Mr. Elmer B. Staats, Comptroller General of the United States, requesting a justification for the General Accounting Office's decision on Mr. George A. Aretakis' <sup>3787</sup> protest of No. WA 77-B302 award ~~issued~~ by the Environmental <sup>per. name</sup> Protection Agency (EPA). AGC00024

Our position on the professional qualifications of auditors who are engaged to render opinions on financial statements, is cited in the Appendix to the "Standards for Audit of Governmental Organizations, Programs, Activities & Functions." (A copy is enclosed.) It is explained in our May 28, 1975, letter to Senator Abraham A. Ribicoff and further clarified in our June 30, 1976, letter to heads of Federal departments and agencies. (Copies are enclosed.)

Our audit standards become mandatory when prescribed by statute or incorporated in agency regulations. The Office of Management and Budget included these standards as basic audit criteria for Federal executive departments and agencies in OMB Circular No. A-73, issued in 1973. Also the Inspector General Act of 1978 states that "each Inspector General shall - (1) comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions; ... (3) take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General as described in paragraph (1)."

Appendix I to the standards states that when outside auditors are employed for assignments requiring a professional opinion on financial statements, only qualified public accountants should be employed. Qualifications are deemed to be met by certified public accountants or by licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States. Appendix I also provides that if the Secretary of an executive department deems that it is in the public interest, he may prescribe even higher standards than those required by the regulatory authority of the State.



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Auditors  
Audit authority  
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Appendix I to the standards relates only to audits of financial statements requiring the expression of an opinion. Nothing in the standards or our recommendation precludes an unlicensed or noncertified public accountant, otherwise capable and qualified, from performing audits of efficiency and economy of operations and evaluating whether desired results have been achieved by governmental programs, provided that an opinion on the financial statements is not required.

We believe that, when the Government engages public accountants, it needs the best qualified ones it can get since governmental financial statements result from many complex and complicated accounting transactions. Therefore, the highest type of skills are needed to audit and render opinions on these statements. Such opinions have special importance because third parties rely on them in making important financial decisions, such as purchasing municipal bonds. Uniform criteria is required to ensure that those who render such opinions possess the necessary skills.

State requirements for noncertified public accountants differ widely and there is no requirement for a uniform examination. However, there is a uniform examination required by all States for certified public accountants, a major portion of which is designed specifically to test the candidates' knowledge of accounting and auditing.

I might also point out that State accounting laws of Connecticut do not permit noncertified public accountants to give professional opinions on financial statements unless they were licensed public accountants prior to June 30, 1955.

The practice of setting standards for the auditing profession is analogous to what States require in other professions, such as law, medicine, and nursing.

Now let me comment on Mr. Aretakis' protest. One of the issues raised in his protest of the award of a contract by the EPA for auditing services was that the economy/efficiency portion of the audit should be submitted for bid separate from that aspect of the audit which requires an opinion of a financial condition. In our decision, George A. Aretakis & Associates, B-189251, October 19, 1977, 77-2 CPD 303, we stated EPA's position on this issue and also pointed out that it is well established that contracting agency officials are accorded a broad range of discretion in making determinations of minimum needs and their judgment will not be challenged by our office unless it is shown to be unreasonable. In this decision, we held that the request for proposals limited the category of qualified offerors to certified public accountants (CPAs) and that this requirement was neither ambiguous nor unnecessarily restrictive of competition.

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In our decision, George A. Aretakis & Associates - Reconsideration, B-189251, March 16, 1978, 78-1 CPD 210, we reaffirmed our decision of October 19, 1977, and stated that as indicated in our prior decision, it is true that the economy/efficiency aspects of the auditing work would not necessarily call for an expression of opinion and thus a non-CPA might be qualified to perform that portion of the audit assignment. However, EPA opposes the segregation of auditing functions on the grounds that the economy/efficiency and the financial/compliance aspects of the auditing work are integrally related and that contracting with separate firms to perform these functions would result in waste and unnecessary duplication of effort. Since Mr. Aretakis has offered no argument or evidence to dispute this we have no basis to disturb our conclusion.

When an agency asks for an opinion of a financial statement as part of the end product of the audit work it is procuring, the agency would be following our audit standards by insisting that the auditors who bid on their work be qualified public accountants as explained above. Mr. Aretakis does not meet this standard and, therefore, he is not eligible to do the work described above in audits performed under the GAO standards. Unless he can find instances where opinions on financial statements are not required, and his proposal is rejected, we do not believe he has any cause for complaint.

I would like to reiterate that our recommendation relates only to audits requiring the expression of an opinion on financial statements. Nothing in the standards or our recommendation precludes an unlicensed or noncertified public accountant, otherwise capable and qualified, from performing audits of efficiency and economy of operations or audits for the purpose of evaluating whether desired results have been achieved by governmental programs.

We have met with Mr. Aretakis and have corresponded with him several times since 1976. We have done our best to respond to his concerns and questions.

If we can be of further assistance, please let us know.

Sincerely yours,

*Harry R. Jan Clave*

*for*

Milton J. Socolar  
General Counsel

Enclosures