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Financial Audit Manual Volume 2

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To Audit Officials, Agency Chief Financial Officers, and Others Interested in Federal Financial Auditing and Reporting

This letter transmits the revised Financial Audit Manual (FAM) of the U.S. Government Accountability Office (GAO) and the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The FAM presents a methodology for performing financial statement audits of federal entities in accordance with professional standards and consists of three volumes. FAM Volume 1 contains the audit methodology. FAM Volume 2 provides detailed implementation guidance. FAM Volume 3 contains checklists for Federal Accounting (FAM 2010) and Federal Reporting and Disclosures (FAM 2020). Subsequent to this release, FAM Volume 3 will be updated and distributed periodically.

We have revised the FAM to reflect significant changes in auditing financial statements in the U.S. government since the last major revisions of FAM Volumes 1 and 2 (issued in July 2008) and FAM Volume 3 (issued in August 2007). The revisions to the FAM are primarily based on changes in (1) professional auditing and attestation standards of the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA), (2) GAO's Government Auditing Standards (2011), (3) GAO's Standards for Internal Control in the Federal Government (2014), and (4) the Office of Management and Budget's audit and reporting guidance.

To help the FAM continue to meet the needs of the federal audit community and the public it serves, GAO and CIGIE worked jointly to update the FAM. In July 2017, CIGIE distributed an exposure draft of FAM Volume 1 for a comment period that ended September 2017. In November 2017, CIGIE distributed an exposure draft of FAM Volume 2 for a comment period that ended in January 2018. In September 2017 (FAM 2010) and October 2017 (FAM 2020), CIGIE distributed an exposure draft of FAM Volume 3 for a comment period that ended in December 2017. All comments we received were considered in the final FAM.

This FAM supersedes previously issued versions of FAM and can be used immediately to audit federal entity financial statements.

Should you need additional information, please contact us at fam@gao.gov.

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Contents – FAM Volume 2 – Detailed Implementation Guidance

.01 Volume 2 provides detailed implementation guidance which include activities that would be performed during other phases of the audit. Thus, the auditor may refer to the FAM sections in volume 2 early in the audit. For example, FAM 600s includes guidance to auditors on designing and performing oversight and other procedures when using the work of others. FAM 701, Determining Financial Management Systems' Compliance with the Federal Financial Management Improvement Act (FFMIA) Section 803(a) Requirements, 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, FAM 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.

.02 The audit procedures presented in the examples in the FAM sections of volume 2 are examples of some of the audit steps typically performed in each area. They are used in conjunction with the appropriate FAM sections. In using these procedures, the auditor uses professional 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 entity to be audited. The auditor may integrate these steps with the audit programs for related line items. For example, tests of intragovernmental activity and balances in FAM 902 may be integrated with tests of accounts receivable and payable, and, to improve effectiveness, the auditor may coordinate those tests with related nonintragovernmental activity and balances.

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SECTION 600
Using the Work of Others

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610 – Overview of Using the Work of Others

.01 In many financial statement audits, the auditor uses the work and reports of other auditors and specialists. Other auditors may include independent public accounting (IPA) firms, inspectors general (IG), state auditors, and internal auditors. Specialists may include statisticians, actuaries, economists, and information system personnel.

.02 FAM 600 provides guidance to auditors on designing and performing oversight and other procedures when using the work of others as follows:

- evaluating the objectivity and competence of other auditors or specialists (FAM 615),
- using the work of an auditor's specialist (FAM 620),
- using the work of a management's specialist (FAM 625),
- audits of group financial statements and using the work of component auditors (FAM 630),
- entities using the work of a service organization (FAM 640),
- using the work of an internal auditor (FAM 645), and
- IG oversight of contracted IPAs (FAM 670).

.03 The auditor may contract with an IPA firm to perform the entire audit. FAM 670 provides guidance to IGs in designing procedures for the oversight on those engagements, and FAM 615 provides guidance on evaluating their objectivity and competence.

.04 The auditor may contract with an IPA firm to perform parts of an audit. An auditor may find FAM 630, adapted as necessary in the circumstances, useful when that auditor involves other auditors (those with expertise in accounting or auditing) in the audit of financial statements that are not group financial statements. For example, an auditor may involve another auditor to observe the inventory count or inspect physical fixed assets at a remote location (AU-C 600.02). The auditor's responsibilities for supervising other auditors who are essentially functioning as part of the audit team are the same as those for supervising other audit team members, as discussed in FAM 210 and 215 (including FAM 210.04 specifically). However, as outside auditors are not subject to a firm's quality control procedures, the auditor should evaluate their objectivity and competence (see FAM 615).

615 – Evaluating the Objectivity and Competence of Other Auditors or Specialists

Overview

.01 FAM 600 discusses circumstances where an auditor may use or review the work of others. Regardless of the purpose for using the work of others, the auditor should evaluate whether the other auditors or specialists have the necessary objectivity and competence for the auditor's purposes. This section provides guidance to assist the auditor in determining the procedures in evaluating the (1) objectivity and (2) competence of other auditors and specialists. Component auditors and service organization auditors should be independent in order for the auditor to use their work. The auditor should consider if the degree of objectivity is sufficient for the type of work that the specialists and internal auditors perform that the auditor will use. There are also specific procedures (as noted in the sections below) that may need to be performed by IPA firms, government auditors, internal or external auditors, or specialists. The chart below links the different FAM 600 sections to the applicable paragraphs of this section:

Relevant FAM 600 section	Objectivity	Competence
FAM 620 – Using the Work of an Auditor's Specialist	FAM 615.03 through .06	FAM 615.12 through .15; .17; and .24 through .28
FAM 625 – Using the Work of a Management's Specialist	FAM 615.03 and.07	FAM 615.12 and .24
FAM 630 – Group Audits & Using the Work of a Component Auditor	FAM 615.03 through .05; .08; and .11	FAM 615.12 through .15 and .18 through .23
FAM 640 – Using the Work of Service Organization Auditors	FAM 615.03 and .09 to.10	FAM 615.12; .16; .19 through .21; and .29
FAM 645 – Using the Work of Internal Auditors	FAM 615.03 and .11	FAM 615.12; .15; and .21 through .23
FAM 670 – Oversight of Audits Performed by Contracted IPA Firms	FAM 615.03 through .04	FAM 615.13 through .14; .19 through .21; and .30

.02 When using the work of other auditors in situations not specifically addressed above, auditors may find guidance from the applicable AU-C sections and in this FAM section (FAM 615), adapted as necessary, useful when evaluating the objectivity and competence of the other auditors.

Evaluating the Other Auditors' or Specialists' Objectivity

.03 The credibility of auditing in the government sector is based on the auditor's objectivity in discharging its professional responsibilities. Objectivity includes independence of mind and appearance when providing audits, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of

interest. Maintaining objectivity includes continually assessing relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity (see GAGAS (2011) 1.19).

When using or reviewing the work of others, the auditor should evaluate whether the other auditors' or specialists' organizations, as well as the individual auditors or specialists, are objective (or independent, as applicable). Component auditors and service organization auditors should be independent in order for the auditor to use their work. There are also varying degrees of objectivity for evaluating specialists and internal auditors. If the auditor has previously evaluated the objectivity of the other auditors or specialists for another engagement, the auditor should update the previous evaluation. The nature and extent of evidence needed will depend on the significance of the other auditors' or specialists' work to the current audit objectives and the extent to which the auditor will use the work. The following procedures may be used in evaluating the objectivity of other auditors or specialists. In addition, auditors may refer to GAGAS as needed when making independence determinations (see GAGAS (2011) 3.06.).[1]

.04 If the auditor engages the other auditors or specialists as a contractor, the auditor may use a contracting process that is part of its organization or a procurement function within the entity to be audited to evaluate independence and objectivity of other auditors or specialists. For example, the auditor could determine whether the firm selected made the following representations in the proposal: that it and the assigned engagement team

- are independent and objective with respect to the audited entity;
- will remain independent throughout the audit;
- will disclose any independence issues discovered; and
- will immediately notify the appropriate official(s) (such as the contracting officer's representative (COR)) when considering submitting a proposal on any contracts involving the audited entity to permit evaluation of whether its auditors' independence could be impaired.

Firms may be asked to describe in their proposals all work, including nonaudit services, they have done for the audited entity in the last several years. See GAGAS (2011) 3.33 through 3.58.

The auditor may wish to include in the statement of work (SOW) or request for proposal (RFP) that the government will determine whether a firm is independent for the purpose of performing an audit of financial statements of the federal entity. This avoids a potential dispute where, for example, the firm does substantial nonaudit work for the entity to be audited that the auditor views as a conflict. The technical evaluation panel may evaluate whether the nature and extent of nonaudit services or other factors cause an independence or objectivity issue, either in independence of mind or independence in appearance.

.05 When the auditor does not participate in contracting for the other auditors or specialists, the auditor may obtain an overview of the contracting process to

[1]See GAGAS (2011) 3.02 through 3.26 for additional discussion related to independence and applying the conceptual framework approach to independence.

provide background in evaluating the objectivity of the other auditors or specialists, including

- reading the SOW or RFP,
- reviewing the proposal of the firm selected, and
- understanding the evaluations of the panel that selects the firm.

The auditor may determine whether the other auditors' or specialists' firm provided a representation as to objectivity (usually in its proposal). If the firm has not provided such a representation, the auditor may wish to obtain one from the firm. If the auditor is not familiar with the firm, the auditor can inquire of professional organizations, such as the American Institute of Certified Public Accountants (AICPA) or the Public Company Accounting Oversight Board (PCAOB), about the firm's professional reputation and standing. The auditor may also consider whether the other auditors' or specialists' work is subject to technical performance standards or other professional or industry requirements (for example, specialists may be subject to ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation (AU-C 620.A17)).

Additional Procedures to Perform in Evaluating Objectivity for Specific Types of Specialists and Auditors

Internal Specialists

.06 An auditor's internal specialist may be a partner or staff member, including temporary staff member, of the auditor's organization and therefore subject to the independence and/or objectivity quality control policies and procedures of that organization (AU-C 620.A12). In accordance with AU-C 220, auditors are entitled to rely on the organization's system of quality control unless the auditor's engagement partner determines that it is inappropriate to do so based on information provided by the other auditors' or specialists' firms or other parties. However, such reliance does not reduce the auditor's responsibility to meet the requirements of AU-C 620 (AU-C 620.A13).

Management's Specialists

.07 When evaluating the objectivity of a management's specialist, the auditor may consider any controls within the entity over that specialist's work as important factors with regard to the reliability of any information produced by a management's specialist (AU-C 500 A.38). A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats.

Although safeguards cannot eliminate all threats to the objectivity of a management's specialist, some threats may be of less significance to a specialist engaged by the entity than to a specialist employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, a specialist employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity (AU-C 500 A.43).

When evaluating the objectivity of a management's specialist engaged by the entity, it may be relevant to discuss with management and that specialist any interests and relationships that may create threats to the specialist's objectivity and any applicable safeguards, including any professional requirements that apply to the specialist, and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include financial interests, business and personal relationships, and provision of other services (AU-C 500 A.44).

Component Auditors of a Group Audit

.08 In addition to evaluating whether a **component auditor** is independent and objective, the auditor (group engagement team) should obtain an understanding of whether a component auditor understands and will comply with the ethical requirements that are relevant to the group audit (AU-C 600.22 and see FAM 630). Such requirements may be different from or in addition to those applying to a component auditor when performing an audit in the component auditor's jurisdiction. The auditor, therefore, obtains an understanding about the component auditor's understanding of, and compliance with, the ethical requirements that are relevant to the group audit and whether these are sufficient to fulfill the component auditor's responsibilities in the group audit. When the component auditor is not subject to the AICPA Code of Professional Conduct, the component auditor's compliance with the ethics and independence requirements set forth in the International Federation of Accountants Code of Ethics for Professional Accountants is sufficient to fulfill the component auditor's ethical responsibilities in the group audit (AU-C 600.A46).

The auditor should obtain written representations from the component auditor that to the best of their knowledge, the firm and the individual auditors doing the work have complied with ethical requirements relevant to the group audit, including independence (AU-C 600.42).

Service Organization Auditors

.09 When the auditor (the user auditor) is using a type 1 or type 2 report prepared by a service organization auditor (see FAM 640), the auditor should be satisfied regarding the service organization auditor's independence from the service organization (AU-C 402.13). However, a service organization auditor need not be independent of the auditor (AU-C 402.A22).

.10 Independence can be determined by reviewing the service organization auditors' report and determining if there is a statement in the report describing the service organization auditor's independence. Unless evidence to the contrary comes to the auditor's attention, a service organization auditor's report implies that the service organization auditor and individual team members are independent of the service organization (AU-C 402.A22) and the auditor need not perform any additional procedures concerning independence. If there is no statement in the report describing the service organization auditor's independence, the auditor should work with the entity under audit to assess the service organization auditor's independence from the service organization using chapter 3 of GAGAS (2011) and FAM 615.03.

Government Auditors

.11 When using the work of government auditors, the auditor should also consider the guidance in GAGAS (2011) 3.27 through 3.32 in determining independence and objectivity.

Evaluating Other Auditors' or Specialists' Competence

Overview

.12 After evaluating the other auditors' or specialists' objectivity (and independence, as appropriate), the auditor should evaluate their competence to perform the specific tasks required (AU-C 402.13, AU-C 500.08, AU-C 600.22, AU-C 610.13, and AU-C 620.09). This involves evaluating the competence of the other auditors' or specialists' firms as well as that of specific team members. Where the auditor has previously used the work of the same other auditors or specialists, the auditor generally should update the previous evaluation.

Evaluating Other Auditors' or Specialists' Competence at the Organization/Firm Level

.13 If the auditor engages the other auditors or specialists as a contractor, the auditor generally should evaluate the other auditors' or specialists' firms' qualifications through the contracting process, usually by using a technical evaluation panel for selecting a qualified firm. A firm may submit résumés for its key team members, demonstrates why its team is qualified to do the work, and submits its plan for performing the work.

Audit firms should submit their latest peer review report (GAGAS (2011) 3.107), letter of comments, and response to the peer review report (see FAM 615.26 for auditors or specialists who do not have peer review report).[2] The firm should also agree to submit updated peer review reports during the period of the contract. To comply with GAGAS, a firm must have had an external peer review within the last 3 years (see GAGAS (2011) 3.82).[3]

An IPA firm may also be asked to submit its latest public inspection report that the PCAOB prepared, but these reports pertain to audits of publicly traded companies and related quality controls. However, to the extent that they raise issues about quality controls or methodology, they may be applicable to audits of entities.[4]

.14 Where the auditor did not participate in the contracting process for the other auditors or specialists, the auditor should determine how the qualifications of a firm were evaluated. For example, consider whether the technical evaluation panel or entity under audit review provided the following:

- Résumés of the key team members
- The audit approach

[2]IPA firms have peer reviews performed every 3 years.

[3]Extensions of the deadlines for submitting the peer review report exceeding 3 months beyond the due date are granted by the entities that administer the peer review program and GAO (see GAGAS (2011) 3.97).

[4]Further information on the PCAOB inspection report process is available at www.pcaobus.org.

- The peer review report and related letter of comments (if any)
- The firm's response to the peer review report

The auditor should read the reviewed documents and conclude on competence (see FAM 615.19 through .21).

.15 **For government internal or external auditors**, the auditor should ask whether the audit organization had a peer review and the date of that review (see FAM 615.19 through .21). 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 performed by reviewers independent of the audit organization every 3 years (GAGAS (2011) 3.82).

The auditor should read the peer review report, the letter of comments, and the audit organization's response.

.16 If using the work of a **service organization auditor**, the auditor should request from the entity under audit the service organization auditor's most recent peer review report and any other written communication issued. The auditor should evaluate the reports (see FAM 615.19 through .21) and work with the entity under audit if any additional information is needed to evaluate the competency of the service organization auditor's firm.

.17 If the auditor is using an **internal specialist** (which may be a partner or staff member, including a temporary staff member, of the auditor's organization), the internal specialist would be subject to the competence quality control policies and procedures of that organization (AU-C 620.A12). In accordance with AU-C 220, auditors are entitled to rely on the organization's system of quality control unless the auditor's engagement partner determines that it is inappropriate to do so based on information provided by firms or other parties.

.18 For group audits, the auditor should obtain written representations from the **component auditor** that to the best of their knowledge the component auditor has complied with ethical requirements relevant to the group audit, including professional competence (AU-C 600.42).

Evaluation of Peer Review Reports

.19 Where the auditors' or specialists' firm has received a peer review rating of pass within the last 3 years, the auditor generally need not perform further review of the firm's quality controls. However, the auditor may request and review letter of comments, if any, relating to the peer review.

.20 Where the other auditors' or specialists' firm receives a peer review or inspection report rating of pass with deficiencies or fail, the auditor should evaluate whether the quality control system has since been strengthened to allow the auditor to use the other auditors' or specialists' work. The auditor may review the firm's action plan for improving quality controls and inspection results in determining whether quality controls have improved since the peer review. The auditor should evaluate the effect of remaining weaknesses in determining the nature and extent of procedures to be performed.

Evaluating Other Auditors' or Specialists' Competence at the Individual Team Member Level

.21 In addition to evaluating the other auditors' or firms' competence, the auditor also should evaluate the overall competence of the key individual team members assigned to do the work. The auditor may review résumés and training records of key team members to accomplish this. The auditor should review the specific education, training, certifications, and experience of key team members. In evaluating qualifications, the auditor should review the specific role of team members on the job. When the auditor has knowledge of competence from prior experience for key team members, the auditor should inquire about their experience since the last audit.

Other Auditors (Except Service Organization Auditors)

.22 The auditor should determine that other auditors engaged to assist in performing financial audits are licensed certified public accountants, persons working for licensed certified public accounting firms or for a government auditing organization, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than certified public accountants (GAGAS (2011) 3.75). The auditor should also determine whether the other auditors are competent as required by GAGAS, including having completed continuing professional education (CPE) requirements. See GAGAS (2011) 3.69 through 3.81. This may include obtaining an assertion, reviewing years of experience, reviewing types of past audits performed, and reviewing CPE history.

.23 The auditor's understanding of the other auditors' professional competence may include whether the other auditors (AU-C 600.A48)

- possess an understanding of the auditing and other standards applicable to the audit, such as U.S. generally accepted auditing standards (U.S. GAAS), that is sufficient to fulfill the other auditors' responsibilities;
- possess the special skills (for example, industry-specific knowledge or knowledge of relevant financial reporting requirements for statements and schedules to be filed with regulatory agencies) necessary to perform the work; and
- when relevant, possess an understanding of the applicable financial reporting framework that is sufficient to fulfill the other auditors' responsibilities in the audit (instructions that the auditor issues to the other auditors often describe the characteristics of the applicable financial reporting framework).

Specialists

.24 The auditor's assessment of professional qualifications of the specialist involves the following (GAGAS (2011) 6.43):

- the professional certification, license, or other recognition of the competence of the specialist in the specialist's field, as appropriate;
- the reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance;
- the specialist's experience and previous work in the subject matter;

- the auditor's prior experience in using the specialist's work; and
- the competence of the specialist with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models, when applicable, that are consistent with the applicable financial reporting framework (AU-C 500.A41).

Refer to AU-C 500.08a and .A38 through .A44 for additional considerations specific for **management's specialists**.

.25 The auditor should determine that **external specialists** (specialists who are hired/engaged from outside the auditor's organization) assisting in performing a GAGAS audit are qualified and competent in their areas of specialization; however, external specialists are not required to meet the GAGAS CPE requirements. (GAGAS (2011) 3.79) Auditors who use the work of external specialists should assess the professional qualifications of such specialists and document their findings and conclusions.

.26 The auditor should determine that **internal specialists** (specialists who are from within the auditor's organization) consulting on a GAGAS audit who are not involved in directing, performing audit procedures, or reporting on a GAGAS audit, are qualified and competent in their areas of specialization; however, these internal specialists are not required to meet the GAGAS CPE requirements (GAGAS (2011) 3.80).

.27 The auditor should determine that **internal specialists**, who are performing work in accordance with GAGAS as part of the audit team, including directing, performing audit procedures, or reporting on a GAGAS audit, comply with GAGAS, including the CPE requirements (see GAGAS (2011) 3.69 through 3.78). The GAGAS CPE requirements become effective for internal specialists when an audit organization first assigns an internal specialist to an audit. Because internal specialists apply specialized knowledge in government audits, training in their areas of specialization qualifies under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates (GAGAS (2011) 3.81).

.28 An auditor's **internal specialist** may be a partner or staff member, including a temporary staff member, of the auditor's organization and therefore subject to the competence quality control policies and procedures of that firm. (AU-C 620.A12) In accordance with AU-C 220, auditors are entitled to rely on the organization's system of quality control unless the auditor's engagement partner determines that it is inappropriate to do so based on information provided by the organization or other parties. However, such reliance does not reduce the auditor's responsibility to meet the requirements of this FAM section and AU-C 620 (AU-C 620.A13).

Service Organization Auditors

.29 The auditor is not required to assess the competence of the individual team members working on a service organization audit. If the auditor is satisfied with the service organization auditor firm's competence (see FAM 615.16), then no further procedures are necessary. However, if the auditor is not satisfied with the service organization auditor firm's competence, the auditor may make inquiries to

the entity under audit regarding the service organization's individual team members' competence (see FAM 615.21 through .23).

Documentation

.30 The auditor should document the work performed and the conclusions reached as to the other auditors' or specialists' firm's independence, objectivity, and qualifications, as well as that of the individual team members of the other auditors' or specialists' firms. The auditor should also document whether the other auditors' or specialists' individual team members have any significant threats to independence and whether necessary safeguards were applied to eliminate those threats or reduce to an acceptable level. See GAGAS 3.24 for additional information. The documentation should indicate the auditor's conclusion as to whether the other auditors or specialists are independent, objective, and qualified to perform the tasks required and the basis for that conclusion. The auditor should consult with the reviewer if there are questions about the other auditors' or specialists' independence, objectivity, or qualifications.

.31 If the auditor has significant concerns about the other auditors' or specialists' independence, objectivity, or qualifications, the auditor should revise its audit strategy. For example, the auditor may

- perform a more detailed review of the documentation and/or perform supplemental tests of key line items;
- contract with another firm;
- ask the other auditors to substitute more highly qualified or objective staff members;
- perform the audit without using the other auditors' work, treating any work done by the other auditors as prepared by the audited entity;
- 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
- if the auditor is unable to resolve the concerns, determine the effect on the audit opinion (e.g., if there is a scope limitation requiring a modification to the audit opinion).

620 – Using the Work of an Auditor's Specialist

Overview

.01 FAM 620 provides guidance on the auditor's responsibilities relating to the work of an individual or organization possessing expertise in a field other than accounting or auditing when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence (AU-C 620.01).

.02 FAM 620 does not address situations in which the engagement team includes a member or consults an individual or organization with expertise in a specialized area of accounting or auditing, which are addressed in FAM 210.04 and AU-C 220 (AU-C 620.02.a). See also FAM 610.04.

.03 FAM 620 does not address the auditor's use of the work of an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field the entity to be audited uses to assist it in preparing the financial statements (a management's specialist), which is addressed in FAM 625 (AU-C 620.02.b).

.04 Expertise in a field other than accounting or auditing may include expertise regarding such matters as the following (AU-C 620.A1):

- the valuation of complex financial instruments and nonfinancial assets and liabilities measured at fair value, such as land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations, and assets that may have been impaired;
- the actuarial calculation of liabilities associated with insurance contracts or employee benefit plans;
- the estimation of oil and other mineral reserves;
- the valuation of environmental liabilities and site cleanup costs;
- the interpretation of laws, regulations, contracts, and grant agreements;
- the analysis of complex or unusual tax compliance issues;
- the determination of physical characteristics relating to quantity on hand or condition (for example, quantity or condition of minerals or materials stored in stockpiles);
- the analysis of the effect of information system (IS) controls on the audit and the understanding and evaluation of IS controls (AU-C 300.A18); and
- statistical analysis.

.05 The following are examples of positions that generally should be considered auditor's specialists:

- Statistician (with audit sampling experience)
- Audit sampling specialist
- Legal counsel
- IS controls specialist

- Actuary (for insurance and pension audits)
- Economist
- Financial analyst
- Environmental specialist

.06 In many cases, distinguishing between expertise in accounting or auditing and expertise in another field will be straightforward, even when this involves a specialized area of accounting or auditing. The table below highlights some examples (AU-C 620.A2).

Area	**Expertise in accounting and auditing** (Auditor)	**Expertise in a field other than accounting and auditing** (Auditor's specialist)
Employee benefits	Applying methods of accounting for employee benefit accrual	Actuarial computation of employee benefits
Financial instruments	Applying methods of accounting for financial instruments	Complex modeling for the purpose of valuing financial instruments

.07 However, in some cases, particularly those involving an emerging area of accounting or auditing expertise, distinguishing between specialized areas of accounting or auditing and expertise in another field will be a matter of professional judgment. Applicable professional rules and standards regarding education and competency requirements for accountants and auditors may assist the auditor in exercising that judgment (AU-C 620.A2).

.08 An individual may possess expertise in accounting or auditing, as well as expertise in a field other than accounting or auditing (for example, an actuary also may be an accountant). In that circumstance, determining whether that individual is an auditor or an auditor's specialist depends on the nature of the work that individual performs that the auditor is using for purposes of the audit (AU-C 620.A3).

.09 An auditor's specialist may be either an auditor's internal specialist (who is a partner or staff member, including a temporary staff member, of the auditor's organization) or an auditor's external specialist (AU-C 620.06).

Determining the Need for an Auditor's Specialist

.10 If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor should determine whether to use the work of an auditor's specialist (AU-C 620.07). As the audit progresses or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's specialist (AU-C 620.A7).

.11 An auditor's specialist may be needed to assist the auditor in one or more of the following (AU-C 620.A5):

- obtaining an understanding of the entity and its environment, including its internal control;
- identifying and assessing the risks of material misstatement;

- determining and implementing overall responses to assessed risks at the financial statement level;
- designing and performing additional audit procedures to respond to assessed risks at the relevant assertion level, which may include tests of controls or substantive procedures; and
- evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.

.12 In some situations, the auditor may determine that it is necessary to use, or may choose to use, an auditor's specialist to assist in obtaining sufficient appropriate audit evidence. Considerations when deciding whether to use an auditor's specialist may include the following (AU-C 620.A9):

- whether management has used a specialist in preparing the financial statements (see AU-C 620.A10);
- the nature and significance of the matter, including its complexity;
- the risks of material misstatement of the matter; and
- the expected nature of procedures to respond to identified risks, including the auditor's knowledge of, and experience with, the work of specialists on such matters and the availability of alternative sources of audit evidence.

.13 An auditor's specialist may also be needed to determine the effect of information systems on the audit, to understand IS controls, or to design and perform tests of IS controls. Specialized IS control audit skills generally are needed in situations where (AU-C 300.A18)

- the entity's systems, IS controls, or the manner in which they are used in conducting the entity's business are complex;
- significant changes have been made to existing systems or new systems have been implemented;
- data are extensively shared among systems;
- the entity participates in electronic commerce;
- the entity uses emerging technologies; or
- significant audit evidence is available only in electronic form.

.14 In other cases, however, an auditor who is not a specialist in a relevant field other than accounting or auditing may be able to obtain a sufficient understanding of that field to perform the audit without an auditor's specialist. This understanding may be obtained through the following, for example (AU-C 620.A8):

- Experience in auditing entities that require such expertise in preparing their financial statements.
- Education or professional development in the particular field. This may include formal courses or discussion with individuals possessing expertise in the relevant field to enhance the auditor's own capacity to deal with matters in that field. Such discussion differs from consultation with an auditor's specialist regarding a specific set of circumstances encountered on the engagement in

which that specialist is given all the relevant facts that will enable the specialist to provide informed advice about the particular matter.

Planning the Review of a Specialist's Work

.15 The nature, timing, and extent of the auditor's procedures with respect to the requirements in FAM 620.18 through .35 will vary depending on the circumstances. In determining the nature, timing, and extent of those procedures, the auditor should consider matters, including (AU-C 620.08)

- the nature of the matter to which the work of the auditor's specialist relates;
- the risks of material misstatement in the matter to which the work of the auditor's specialist relates;
- the significance of the work of the auditor's specialist in the context of the audit;
- the auditor's knowledge of, and experience with, previous work that the auditor's specialist performed; and
- whether the auditor's internal specialist is subject to the auditor's organization's quality control policies and procedures.

.16 For internal specialists (i.e., partners or staff members, including temporary staff members, within the auditor's organization), in accordance with AU-C 220.05, auditors are entitled to rely on the auditor's organization's system of quality control unless the auditor's engagement partner determines that it is inappropriate to do so based on information provided by the auditor's organization or other parties. The extent of that reliance will vary based on the circumstances and may affect the nature, timing, and extent of the auditor's procedures with respect to such matters as the following (AU-C 620.A13):

- Competence and capabilities through recruitment and training programs.
- Independence and objectivity – the auditor's internal specialists are subject to relevant ethical requirements, including those pertaining to independence.
- Agreement with the auditor's internal specialist.
- The auditor's evaluation of the adequacy of the auditor's internal specialist's work. For example, the auditor's organization's training programs may provide the auditor's internal specialists with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training and other organization processes, such as protocols for scoping the work of the auditor's internal specialists, may affect the nature, timing, and extent of the auditor's procedures for evaluating the adequacy the auditor's internal specialist's work.
- Adherence to legal and regulatory requirements through monitoring processes.

Such reliance does not reduce the auditor's responsibility to meet the requirements of this section (AU-C 620.A13).

.17 It is necessary to apply professional judgment when considering how the requirements of this section are affected by the fact that an auditor's specialist may be either an individual or an organization. For example, when evaluating the

independence, objectivity, competence, and capabilities of an auditor's specialist, it may be that the specialist is an organization that the auditor has previously used, but the auditor has no prior experience with the individual specialist assigned by the organization for the particular engagement, or it may be the reverse (that is, the auditor may be familiar with the work of an individual specialist but not with the organization that now employs the specialist). In either case, both the personal attributes of the individual and the managerial attributes of the organization (such as systems of quality control that the organization implements) may be relevant to the auditor's evaluation (AU-C 620.A4).

Determining Objectivity and Competence of the Auditor's Specialist

.18 The auditor should evaluate whether the auditor's specialist has the necessary objectivity, competence, and capabilities for the auditor's purposes. See FAM 615 for additional guidance (AU-C 620.09).

.19 Appendix V of GAO's *Federal Information System Controls Audit Manual (FISCAM)* contains examples of knowledge, skills, and abilities that an auditor's IS specialist should possess.

Obtaining an Understanding of the Auditor's Specialist's Field of Expertise

.20 The auditor should obtain a sufficient understanding of the auditor's specialist's field of expertise to enable the auditor to determine the nature, scope, and objectives of the auditor's specialist's work for the auditor's purposes and evaluate the adequacy of that work for the auditor's purposes (AU-C 620.10).

.21 Aspects of the field of the auditor's specialist relevant to the auditor's understanding may include the following (AU-C 620.A24):

- whether the field of the auditor's specialist has areas of specialty within it that are relevant to the audit;
- whether any professional or other standards and legal or regulatory requirements apply;
- what assumptions and methods, including models, when applicable, the auditor's specialist uses, and whether they are generally accepted within that field and appropriate for financial reporting purposes; and
- the nature of internal and external data or information that the auditor's specialist uses.

Agreement with the Auditor's Specialist

.22 The auditor should agree, in writing when appropriate, with the auditor's specialists regarding (AU-C 620.11 and AU-C 620.A25)

- the nature, scope, and objectives of the work of the auditor's specialist;
- the respective roles and responsibilities of the auditor and the auditor's specialist;

- the nature, timing, and extent of communication between the auditor and the auditor's specialist, including the form of any report that the specialist is to provide; and
- the need for the auditor's specialist to observe confidentiality requirements.

.23 The matters noted in FAM 620.15 may affect the level of detail and formality of the agreement between the auditor and the auditor's specialist, including whether it is appropriate that the agreement be in writing. For example, the following factors may suggest the need for a more detailed agreement than would otherwise be the case or for the agreement to be in writing (AU-C 620.A26):

- the auditor's specialist will have access to sensitive or confidential entity information;
- the respective roles or responsibilities of the auditor and the auditor's specialist are different from those normally expected;
- multijurisdictional legal or regulatory requirements apply;
- the matter to which the work of the auditor's specialist relates is highly complex;
- the auditor has not previously used work performed by the auditor's specialist; and
- the auditor's use of the work of the auditor's specialist is extensive and is significant in the context of the audit.

.24 In establishing the agreement with the auditor's specialist, an important consideration is whether the work of the auditor's specialist is subject to any reservation, limitation, or restriction and whether this has implications for the auditor (AU-C 620.A27).

.25 When no written agreement exists between the auditor and the auditor's specialist, evidence of the agreement may be included in the following, for example (AU-C 620.A29):

- Planning memorandums or related working papers, such as the audit program.
- The policies and procedures of the auditor's firm. In the case of an auditor's internal specialist, the established policies and procedures to which the auditor's specialist is subject may include particular policies and procedures regarding the work of the auditor's specialist. The extent of documentation in the auditor's working papers depends on the nature of such policies and procedures. For example, no documentation may be required in the auditor's working papers if the auditor's organization has detailed protocols covering the circumstances in which the work of such an internal specialist is used.

Evaluating the Adequacy of the Work of the Auditor's Specialist

.26 The auditor's evaluation of the objectivity, competence, and capabilities of the auditor's specialist; the auditor's familiarity with the specialist's field of expertise; and the nature of the work performed by the auditor's specialist affect the nature, timing, and extent of audit procedures for evaluating the adequacy of the auditor's specialist's work for the auditor's purposes (AU-C 620.A35). The level of

review is based on the auditor's professional judgment considering the following factors along with matters identified in FAM 620.15:

a. The specialist's objectivity: The level of auditor review increases as specialist's objectivity decreases.

b. The specialist's qualifications (both for the specialist's firm and its engagement team) to perform the work the auditor wishes to use: The level of auditor review increases as the specialist's qualifications decrease.

c. The auditor's prior experience with the specialist: The level of auditor review tends to decrease as the auditor's confidence increases from working with the specialist.

d. The materiality of the line item in relation to the financial statements the auditor is reporting on, taken as a whole: The level of auditor review increases as the line item value increases.

e. The risk of material misstatement, including the risk of material fraud for the line item and assertion in the financial statements on which the specialist is performing procedures: The level of auditor review increases as the risk of material misstatement increases.

f. The specialist is an internal specialist: The level of review decreases if the work the auditor wishes to use is subject to the auditor's quality control policies and procedures.

The auditor may need to reevaluate the planned level of review as the work progresses. If serving as the COR, the auditor will assist the contracting officer to ensure contractor compliance with the terms and conditions of the contract.

.27 It is not necessary to perform supplemental tests of the work of specialists. As indicated in AU-C 620.12, the auditor should evaluate the adequacy of the work of an auditor's specialist for the auditor's purposes, including

- evaluating the relevance and reasonableness of the specialist's findings and conclusions and consistency with other audit evidence (see FAM 620.30);
- obtaining an understanding of the significant assumptions and methods that the specialist used and evaluating the relevance and reasonableness of those assumptions and methods in the circumstances, giving consideration to the rationale and support provided by the specialist and in relation to the auditor's other findings and conclusions (see FAM 620.31 through .33); and
- evaluating the relevance, completeness, and accuracy of source data that are significant to the work of the auditor's specialist (extent of testing is based on risk and materiality) (see FAM 620.34 through .35).

.28 Specific procedures to evaluate the adequacy of the work of the auditor's specialist for the auditor's purposes may include the following (AU-C 620.A36):

- Making inquiries of the auditor's specialist.
- Reviewing the working papers and reports of the auditor's specialist.
- Performing corroborative procedures, such as
  - observing the work of the auditor's specialist;
  - examining published data, such as statistical reports from reputable,

authoritative sources;

- confirming relevant matters with third parties;
- performing detailed analytical procedures; and
- reperforming calculations.

- Engaging in discussion with another specialist with relevant expertise when, for example, the findings or conclusions of the auditor's specialist are not consistent with other audit evidence.
- Discussing the report of the auditor's specialist with management.

.29 If the auditor determines that the work of the auditor's specialist is not adequate for the auditor's purposes, the auditor should agree with the auditor's specialist on the nature and extent of further work that the specialist is to perform, perform additional audit procedures appropriate to the circumstances, or engage another specialist (AU-C 620.13 and .A43).

Evaluating Findings and Conclusions

.30 Relevant factors when evaluating the relevance and reasonableness of the findings or conclusions of the auditor's specialist, whether in a report or other form, may include whether they are (AU-C 620.A37)

- presented in a manner that is consistent with any standards of the auditor's specialist's profession or industry;
- clearly expressed, including reference to the objectives agreed on with the auditor, the scope of the work performed, and standards applied;
- based on an appropriate period and take into account subsequent events, when relevant; and
- based on appropriate consideration of errors or deviations that the auditor's specialist encountered.

Evaluating Significant Assumptions and Methods

.31 When the work of an auditor's specialist involves using significant assumptions and methods, the appropriateness and reasonableness of those assumptions and methods used and their application are the responsibility of the auditor's specialist. Factors relevant to the auditor's evaluation of those assumptions and methods include whether they are (AU-C 620.A40)

- generally accepted within the specialist's field;
- consistent with the requirements of the applicable financial reporting framework;
- dependent on the use of specialized models (see FAM 905); and
- consistent with those of management—if not consistent, the reason for, and effects of, the differences should be provided.

.32 When the purpose of the auditor's specialist's work is to evaluate underlying assumptions and methods, including models, when applicable, that management uses in developing an accounting estimate, the auditor's procedures are likely to

be primarily directed to evaluating whether the auditor's specialist has adequately reviewed those assumptions and methods. When the purpose of the auditor's specialist's work is to develop an auditor's point estimate or an auditor's range for comparison with management's point estimate, the auditor's procedures may be primarily directed to evaluating the assumptions and methods, including models, when appropriate, used by the specialist. (AU-C 620.A38)

.33 FAM 905 discusses the assumptions and methods that management uses in making accounting estimates, including the use, in some cases, of highly specialized, entity-developed models. Although that discussion is written in the context of the auditor obtaining sufficient appropriate audit evidence regarding management's assumptions and methods, it also may assist the auditor when evaluating the assumptions and methods of an auditor's specialist (AU-C 620.A39).

Evaluating Source Data

.34 When the work of an auditor's specialist involves the use of source data that are significant to the work of the auditor's specialist, procedures such as the following may be used to test that data (AU-C 620.A41):

- verifying the origin of the data, including obtaining an understanding of and, when applicable, testing the internal controls over the data and, when relevant, their transmission to the auditor's specialist, and
- reviewing the data for completeness and internal consistency.

.35 In many cases, the auditor may test source data. However, in other cases, when the nature of the source data used by an auditor's specialist is highly technical in relation to the field of the auditor's specialist, that auditor's specialist may test the source data. If the auditor's specialist has tested the source data, it may be appropriate for the auditor to conduct inquiry of the auditor's specialist or to supervise or review the specialist's test to evaluate the data's relevance, completeness, and accuracy (AU-C 620.A42).

Reference to the Auditor's Specialist in the Auditor's Report

.36 The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's specialist. Nonetheless, if the auditor using an auditor's specialist's work, having followed this section, concludes that the work of that specialist is adequate for the auditor's purposes, the auditor may accept that specialist's findings or conclusions in the specialist's field as appropriate audit evidence (AU-C 620.03).

.37 If the auditor concludes that the work of the auditor's specialist is not adequate for the auditor's purposes and the auditor cannot resolve the matter through the additional audit procedures (refer to para. 29), it may be necessary to express a modified opinion in the auditor's report, as discussed in FAM 580 (AU-C 620.A43).

.38 The auditor should not refer to the work of an auditor's specialist in an auditor's report containing an unmodified opinion. (AU-C 620.14) In this situation, the auditor issues the example report in FAM 595 A (as if no specialist were involved). This means that the auditor takes responsibility for the specialist's work. Professional standards do not permit referring to a specialist, unless the

auditor issues a qualified or adverse opinion or a disclaimer of opinion based on the specialist's work.

.39 If the auditor makes reference to the work of an auditor's external specialist in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor should indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion (AU-C 620.15). In such circumstances, the auditor may need the specialist's permission before making such a reference (AU-C 620.A44).

Documentation

.40 In the overall audit strategy, the auditor should include or refer to other documentation where this information is described in more detail on the following areas:

- Determination of whether to use the work of an auditor's specialist (AU-C 620.07).
- Matters considered when determining the nature, timing, and extent of the auditor's procedures with respect to the requirements of this section (AU-C 620.08).
- Evaluation of whether the specialist has the necessary independence, objectivity, competence, and capabilities for the auditor's purposes. In the case of an auditor's external specialist, the evaluation of objectivity should include inquiry regarding interests and relationships that may create a threat to the auditor's specialist's objectivity (AU-C 620.09).This evaluation may be limited if the individual or organization is subject to the auditor's organization's quality control procedures or to formal contracts.
- Understanding of the auditor's specialist's field of expertise, enabling the auditor to determine the nature, scope, and objectives of the auditor's specialist's work for the auditor's purposes and to evaluate the adequacy of that work for the auditor's purposes (AU-C 620.10).

.41 The auditor should document the understanding of the agreement between the auditor and the specialist (AU-C 620.11). This documentation may consist of planning memorandums, audit programs, policies and procedures of the auditor's organization, or formal contracts when appropriate.

.42 The auditor should document evaluation of the adequacy of the auditor's specialist's work in the audit summary memorandum, including the auditor's conclusions on the (1) relevance and reasonableness of the auditor's specialist's findings and conclusions and consistency with other audit evidence; (2) relevance and reasonableness of any significant assumptions and methods the specialist used; and (3) the relevance, completeness, and accuracy of any source data that are significant to the auditor's specialist's work (AU-C 620.12). In the memorandum, the auditor may refer to other documentation where this information is described in more detail.

625 – Using the Work of a Management's Specialist

Overview

.01 FAM 625 provides guidance on the auditor's responsibilities related to using the work of a management's specialist. A management's specialist is an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist it in preparing its financial statements (AU-C 500.05).

.02 See FAM 620.04 through .05 for examples of specialists that management might use.

Planning the Review of the Management's Specialist's Work

.03 If information to be used as audit evidence has been prepared using the work of a management's specialist, the auditor should, to the extent necessary, take into account the significance of that specialist's work for the auditor's purposes (AU-C 500.08), for example,

- evaluate the objectivity, competence, and capabilities of that specialist;
- obtain an understanding of the specialist's work; and
- evaluate the adequacy of that specialist's work as audit evidence for the relevant assertion.

.04 The following may affect the nature, timing, and extent of audit procedures with regard to the requirement in FAM 625.06 (AU-C 500.A.37):

a. the nature and complexity of the matter to which the management's specialist's work relates;

b. the risks of material misstatement in the matter to which the management's specialist's work relates;

c. the significance of the management's specialist's work of in the context of the audit;

d. the auditor's knowledge of, and experience with, previous work of the management's specialist;

e. the availability of alternative sources of audit evidence;

f. the nature, scope, and objectives of the management's specialist's work;

g. whether the management's specialist is employed by the entity or was engaged by it to provide relevant services;

h. the extent to which management can exercise control or influence over the management's specialist's work;

i. whether the management's specialist is subject to technical performance standards or other professional or industry requirements;

j. the nature and extent of any controls within the entity over the management's specialist's work; and

k. the auditor's knowledge of, and experience with, the management's specialist's field of expertise.

.05 It is necessary to apply professional judgment when considering how the requirements of this section are affected by the fact that an auditor's specialist may be either an individual or an organization. See FAM 620.17 for more information.

Determining Objectivity, Competence, and Capabilities of a Management's Specialist

.06 The auditor should evaluate whether the management's specialist has the necessary objectivity, competence, and capabilities for the auditor's purposes (AU-C 500.08). See FAM 615 for additional guidance related to evaluating the competence and capabilities of a management's specialist.

Obtaining an Understanding of the Work of the Management's Specialist

.07 An understanding of the work of the management's specialist includes an understanding of the relevant field of expertise. An understanding of the relevant field of expertise may be obtained in conjunction with the auditor's determination of whether the auditor has the expertise to evaluate the management's specialist's work or whether the auditor needs an auditor's specialist for this purpose (see FAM 620) (AU-C 500 A.45).

.08 Aspects of the field of the management's specialist relevant to the auditor's understanding may include (AU-C 500 A.46)

- whether that specialist's field includes areas of specialty that are relevant to the audit;
- whether any professional or other standards and legal or regulatory requirements apply;
- what assumptions and methods are used by the management's specialist and whether they are generally accepted within that specialist's field and appropriate for financial reporting purposes; and
- the nature of internal and external data or information the management's specialist uses.

.09 In the case of a management's specialist engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that specialist. Evaluating that agreement when obtaining an understanding of the management's specialist's work may assist the auditor in determining for the auditor's purposes the appropriateness of (AU-C 500 A.47)

- the nature, scope, and objectives of that specialist's work;
- the respective roles and responsibilities of management and that specialist; and
- the nature, timing, and extent of communication between management and that specialist, including the form of any report that the specialist is to provide.

.10 In the case of a management's specialist employed by the entity, it is less likely that there will be a written agreement of this kind. Inquiry of the specialist and

other members of management may be the most appropriate way for the auditor to obtain the necessary understanding (AU-C 500 A.48).

Evaluating the Adequacy of the Management's Specialist's Work

.11 Considerations when evaluating the adequacy of the work of the management's specialist as audit evidence for the relevant assertion may include (AU-C 500 A.49)

- the relevance and reasonableness of that specialist's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
- if that specialist's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; and
- if that specialist's work involves significant use of source data, the relevance, completeness, and accuracy of those source data.

.12 See FAM 620.26, .28, and .30 through .35 for the level of review and example procedures for evaluating the adequacy of the management's specialist's work.

.13 If the auditor determines that the management specialist's work is not adequate for the auditor's purposes, the auditor should perform additional audit procedures appropriate to the circumstances.

Making Reference to the Management's Specialist in the Auditor's Report

.14 See FAM 620.36 through .39 for guidance related to making reference to a specialist in the auditor's report.

Documentation

.15 In the overall audit strategy, the auditor should include or refer to other documentation where this information is described in more detail on the following areas:

- Determination of whether to use the work of a management's specialist as audit evidence.
- Matters considered when determining the nature, timing, and extent of the auditor's procedures with respect to the requirements of this section.
- Understanding of the work of the management's specialist (AU-C 500.08).
- Evaluation of whether the management's specialist has the necessary objectivity, competence, and capabilities for the auditor's purposes (AU-C 500.08).

.16 The auditor should document their evaluation of the adequacy of a management's specialist's work as audit evidence for the relevant assertion (AU-C 500.08) in the audit summary memorandum, including the auditor's conclusions on the

- relevance and reasonableness of management's specialist's findings and conclusions and their consistency with other audit evidence;

- relevance and reasonableness of any significant assumptions and methods used by the specialist; and
- the relevance, completeness, and accuracy of any source data that are significant to the work of management's specialist (AU-C 620.12).

In the memorandum, the auditor may refer to other documentation where this information is described in more detail.

630 – Audits of Group Financial Statements

Overview

.01 FAM 630 provides guidance to auditors on designing and performing a group audit.[5] AU-C 600 also provides guidance in this area. This standard has different requirements depending on whether the group auditor elects to make reference or to not make reference to the work performed by the component auditors. Under AU-C 600, the principal auditor (formerly under AU 543) is now referred to as group engagement partner, group engagement team, auditor of the group financial statements, or group auditor; all of these terms are used interchangeably throughout this section.

.02 The objectives of the auditor are to determine whether to act as the auditor of the group financial statements and, if so, to

- determine whether to make reference to the audit of a component auditor in the auditor's report on the group financial statements;
- communicate clearly with component auditors; and
- obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion about whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

.03 The group engagement partner is responsible for the following:

- directing, supervising, and performing the group audit engagement in compliance with professional standards, applicable legal and regulatory requirements, and the audit entity's policies and procedures and
- determining whether the group auditor's report issued is appropriate in the circumstances.

.04 The group engagement team may use the work of component auditors. In the federal environment, component auditors may be used in various situations, such as audits of individual bureaus, agencies, funds, or other components performed by either IGs or IPA firms.

Determining Whether to Accept and Continue

.05 The group engagement partner should determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained regarding the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team should obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components (AU-C 600.14).

.06 The group engagement partner should evaluate whether the group engagement team will be able to obtain sufficient appropriate audit evidence through the

[5] A group audit is the audit of group financial statements. Group financial statements are defined as financial statements that include the financial information of more than one component. Group financial statements also refer to combined financial statements aggregating the financial information prepared by components that are under common control. (AU-C 600.11)

group engagement team's work or use of the work of component auditors (that is, through assuming responsibility for the work of component auditors or through making reference to the audit of a component auditor or report on internal control over financial reporting of a component auditor in the auditor's report) to act as the auditor of the group financial statements and report as such on the group financial statements (AU-C 600.15 and AU-C 940.78). Factors in determining whether the group engagement team can act as the auditor of the group financial statements include, the financial significance of the components for which the group engagement team is assuming responsibility and the extent to which the group financial statements' risks of material misstatement are included in those components (AU-C 600.A18).

.07 In some circumstances, the group engagement partner may conclude that it will not be possible, due to restrictions imposed by group management, for the group engagement team to obtain sufficient appropriate audit evidence through the group engagement team's work or use of component auditors' work, and the possible effect of this inability will result in a disclaimer of opinion on the group financial statements. In such circumstances, the auditor of the group financial statements should

- for a new engagement, not accept the engagement, or, for a continuing engagement, withdraw from the engagement when withdrawal is possible under applicable law or regulation or
- when the entity is required by law or regulation to have an audit, after having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements (AU-C 600.16).

Overall Audit Strategy and Audit Plan

.08 The group engagement team should establish both an overall group audit strategy and a group audit plan. In developing the group audit plan, the group engagement team should assess the extent to which the group engagement team will use the work of component auditors and whether the auditor's report on the group financial statements will make reference to the audit of a component auditor (AU-C 600.18). The group engagement partner should review and approve the overall group audit strategy and group audit plan (AU-C 600.19).

.09 The group engagement team should determine the level of review to be performed on the component auditor's audit work on the financial information of a component that will be used as audit evidence for the group audit. The level of review is a matter of professional judgment. In some situations, the group engagement team may determine that it is appropriate to perform significantly more work, including performing additional audit procedures. In other 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 group engagement team may decide to read the component auditor's report and the financial statements and ask questions if anything seems unusual.

.10 As noted above, the extent of the group engagement team's review of the component auditor's documentation depends on the level of review and is a matter of professional judgment. The group engagement team should consider

using the following framework in planning and performing the level of review of the component auditor's documentation:

For a **low level of review**, the group engagement team may limit the review of documentation to key summary planning and completion documentation.

For a **moderate level of review**, in addition to the documentation reviewed at the low level of review, the group engagement team should consider reviewing more of the component auditor's documentation, especially those documents evidencing important decisions. For financial statement audits, this includes the audit strategy and audit procedures (or equivalent documents); the LIRA form (or equivalent documentation) for significant accounts; the SCE worksheet (or equivalent documentation) for significant applications; the documentation for accounts, estimates, and judgments with high risk of material misstatement; the analytical procedures; the audit completion checklist at FAM 1003 (or equivalent documentation); the audit summary memorandum; and the summary of uncorrected misstatements (see FAM 595 C).

For a **high level of review**, the group engagement team should consider reviewing all of the items for the moderate level of review plus any important detailed documentation, particularly relating to areas assessed with a high risk of material misstatement, such as memorandums documenting key meetings and discussions with management, the evaluation of sample results, and the summary of uncorrected misstatements. In some cases, the group engagement team may determine that it should coordinate or concur with the component auditor's major planning decisions before audit work is started. Additionally, in some cases, the group engagement team should hold discussions with audited entity management and/or perform additional audit procedures in order to meet the relevant requirements of GAGAS.

Understanding the Group, Its Components, and Their Environments

.11 The auditor is required to identify and assess the risks of material misstatement by obtaining an understanding of the entity and its environment. The group engagement team should do the following:

- Enhance its understanding of the group, its components, and their environments, including group-wide controls, obtained during the acceptance or continuance stage.
- Obtain an understanding of the consolidation process, including the instructions that group management issued to components (AU-C 600.20). Group management ordinarily issues instructions to components in order to achieve uniformity and comparability of financial information. A group engagement team's understanding of these instructions may include whether the instructions describe the financial reporting framework, provide for disclosures consistent with the framework, and provide for component management's approval of the financial information (AU-C 600.A32 through .A34).

.12 The group engagement team should obtain an understanding that is sufficient to

- confirm or revise its initial identification of components that are likely to be significant and

- assess the risks of material misstatement of the group financial statements, whether due to fraud or error (AU-C 600.21).

The group engagement team's assessment of the risks of material misstatement of the group financial statements is based on information such as the following:

- Information obtained based on understanding of the group, its components, and their environments and of the consolidation process, including audit evidence obtained in evaluating the design and implementation of group-wide controls and controls that are relevant to the consolidation. Refer to appendix B at AU-C 600.A95 for examples of conditions or events that may indicate risks of material misstatement of the group financial statements (AU-C 600.A38).
- Information obtained from the component auditors (AU-C 600.A39).

.13 The auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud or error and to design and implement appropriate responses to the assessed risk. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

a. Group management's assessment of the risks that the group financial statements may be materially misstated as a result of fraud or error.

b. Group management's process for identifying and responding to the risks of fraud and error in the group, including any specific fraud risks that group management identified in account balances, classes of transactions, or disclosures for which a risk of fraud is likely.

c. Whether particular components exist for which a risk of fraud or error is likely.

d. How those charged with governance of the group monitor group management's processes for identifying and responding to the risks of fraud or error in the group and the controls group management has established to mitigate these risks.

e. Responses of those charged with governance of the group, group management, and appropriate individuals within the internal audit function (and, if considered appropriate, component management, the component auditors, and others) to the group engagement team's inquiry of whether they have knowledge of any actual, suspected, or alleged fraud or error affecting a component or the group (AU-C 600.A35 through .A36).

Understanding the Component Auditor

.14 Regardless of whether reference will be made in the auditor's report on the group financial statements to the audit of a component auditor, the group engagement team should obtain an understanding of the following:

a. Whether a component auditor understands and will comply with the ethical requirements relevant to the group audit and, in particular, is independent

b. A component auditor's professional competence

c. The extent, if any, to which the group engagement team will be able to be involved in the work of the component auditor

d. Whether the group engagement team will be able to obtain information affecting the consolidation process from a component auditor

e. Whether a component auditor operates in a regulatory environment that actively oversees auditors (AU-C 600.22)

See FAM 610 for requirements related to evaluating the component auditor's independence, objectivity, and qualifications.

.15 When a component auditor does not meet the independence requirements that are relevant to the group audit or the group engagement team has serious concerns about the other matters listed in FAM 630.14 regarding the component auditor's independence and professional competence, the group engagement team should obtain sufficient appropriate audit evidence relating to the component's financial information without making reference to the audit of that component auditor in the auditor's report on the group financial statements or otherwise using the work of that component auditor (AU-C 600.23).

Determining Whether to Make Reference to a Component Auditor in the Auditor's Report on the Group Financial Statements

.16 Having gained an understanding of each component auditor, the group engagement partner should decide whether to make reference to a component auditor in the auditor's report on the group financial statements. (AU-C 600.24) The decision about whether to make reference to a component auditor in the report on the audit of internal control over financial reporting might differ from the corresponding decision as it relates to the audit of the financial statements (AU-C 940.A127).

.17 Reference to the audit of a component auditor in the auditor's report on the group financial statements or on internal control over financial reporting over the group financial statements should not be made unless

a. the group engagement partner has determined that the component auditor has performed an audit of the financial statements of the component or of the component's internal control over financial reporting in accordance with the relevant requirements of GAGAS and

b. the component auditor has issued an auditor's report and internal control over financial reporting that is not restricted as to use (AU-C 600.25 and AU-C 940.79a and .79b).

.18 For situations in which the component's financial statements are prepared using a different financial reporting framework than that used for the group financial statements, see AU-C 600.26.

Making Reference in the Auditor's Report

.19 When the group engagement partner decides to make reference to the audit of a component auditor in the auditor's report on the group financial statements, the group engagement team should obtain sufficient appropriate audit evidence with regard to such components by performing the following procedures:

a. Completing the procedures required by FAM 630, except for those required in FAM 630.56 through .74.

b. Reading the component's financial statements and the component auditor's report thereon to identify significant findings and issues and, when considered necessary, communicating with the component auditor in this regard (AU-C 600.27).

.20 When the group engagement partner decides to make reference to the audit of a component auditor in the auditor's report on the group financial statements, the report on the group financial statements should clearly indicate the following:

a. That the component was not audited by the auditor of the group financial statements but was audited by the component auditor.

b. The magnitude of the portion of the financial statements that the component auditor audited.

c. When the component's financial statements are prepared using a different financial reporting framework than that used for the group financial statements,

- the financial reporting framework used by the component and
- that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group.

d. When

- the component auditor's report on the component's financial statements does not state that the audit was performed in accordance with GAGAS and
- the group engagement partner has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAGAS,
  - the set of auditing standards used by the component auditor and
  - that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAGAS (AU-C 600.28).

.21 If the group engagement partner decides to name a component auditor in the auditor's report on the group financial statements, the component auditor's express permission should be obtained and the component auditor's report should be presented together with that of the auditor's report on the group financial statements (AU-C 600.29). For IPA firms, this permission may be obtained as part of the contracting process. As a professional courtesy, the group engagement team generally should also provide component auditors with a draft of its report so that the auditors can read the report before final issuance.

.22 When the auditor of the group's internal control audit decides to make reference to the report of the component auditor as a basis, in part, for the auditor's opinion on the group's internal control, the auditor should modify the report on internal control over financial reporting.

.23 If the group engagement partner decides to assume responsibility for work of a component auditor, no reference should be made to the component auditor in the auditor's report on the group financial statements (AU-C 600.31).

Materiality

.24 The group engagement team should determine the following:

a. Materiality, including performance materiality, for the group financial statements as a whole when establishing the overall group audit strategy.

b. Whether, in the specific circumstances of the group, particular classes of transactions, account balances, or disclosures in the group financial statements exist for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users based on the group financial statements. In such circumstances, the group engagement team should determine materiality to be applied to those particular classes of transactions, account balances, or disclosures.

c. Component materiality for those components on which the group engagement team will perform, or for which the auditor of the group financial statements will assume responsibility for the work of a component auditor who performs, an audit or a review. Determining component materiality should take into account all components, regardless of whether reference is made in the auditor's report on the group financial statements to the audit of a component auditor. To reduce the risk that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds the materiality for the group financial statements as a whole, component materiality should be lower than the materiality for the group financial statements as a whole, and component performance materiality should be lower than performance materiality for the group financial statements as a whole. Different materiality may be established for different components, and the aggregate component materiality may exceed the group materiality (see AU-C 600.A64 through .A66 for further guidance).

d. The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements (AU-C 600.32).

See FAM 630.56 for additional requirements when assuming responsibility for the work of a component auditor.

Responding to Assessed Risk

.25 The auditor is required to design and implement appropriate responses to address the assessed risks of material misstatement of the financial statements. If the nature, timing, and extent of the work to be performed on the consolidation process or the component's financial information are based on an expectation that group-wide controls are operating effectively, or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level, the group engagement team should test, or have a component auditor test on the group engagement team's behalf, the operating effectiveness of those controls over specified risks that present a reasonable possibility of material misstatement to the group financial statements (AU-C 600.33 and AU-C 940.82). See FAM 630.66 for additional audit procedures when assuming responsibility for the work of a component auditor.

.26 Responses to assessed risks of material misstatement for some or all accounts may be implemented at the group level, without involving the component auditors, if deemed appropriate by the group engagement team (AU-C 600.A68).

.27 In determining the components at which to perform tests of controls, the group engagement team should assess the risk of material misstatement to the financial statements associated with the component and correlate the amount of attention devoted to a component with the degree of risk (AU-C 940.81).

Consolidation Process

.28 In accordance with FAM 630.11, the group engagement team obtains an understanding of group-wide controls and the consolidation process, including the instructions that group management issued to components. In accordance with FAM 630.25, the group engagement team, or component auditor at the request of the group engagement team, tests the operating effectiveness of group-wide controls if the nature, timing, and extent of the work to be performed on the consolidation process are based on an expectation that group-wide controls are operating effectively or when substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level (AU-C 600.34).

.29 The group engagement team should design and perform further audit procedures on the consolidation process to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This should include evaluating whether all components have been included in the group financial statements (AU-C 600.35).

.30 The group engagement team should evaluate the appropriateness, completeness, and accuracy of consolidation adjustments and reclassifications and should evaluate whether any fraud risk factors or indicators of possible management bias exist (AU-C 600.36). The group engagement team's evaluation may include (1) evaluating whether significant adjustments reflect actual events and determining if the adjustments were correctly calculated and supported and (2) checking the reconciliation of intragroup account balances (AU-C 600.A69).

.31 If the financial information of a component has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group engagement team should evaluate whether the financial information of that component has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework (AU-C 600.37).

.32 The group engagement team should determine whether the financial information identified in a component auditor's communication is the financial information that is incorporated in the group financial statements (AU-C 600.38).

.33 If the group financial statements include the financial statements of a component with a financial reporting period end that differs from that of the group, the group engagement team should evaluate whether appropriate adjustments have been made to those financial statements in accordance with the applicable financial reporting framework (AU-C 600.39).

Subsequent Events

.34 When the group engagement team or component auditors perform audits on the financial information of components, the group engagement team or the component auditors should perform procedures designed to identify events at those components that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements and that may require adjustment to, or disclosure in, the group financial statements. See FAM 630.68 for additional requirements when assuming responsibility for the work of a component auditor (AU-C 600.40).

.35 The group engagement team may ask the component auditors to update the subsequent events review to the required date, or the group engagement team may update the subsequent events review. However, since this requires additional work, the group engagement team should attempt to complete audit work when the component auditors complete their work. The group engagement team should evaluate this issue and coordinate with the component auditors when planning the audit.

Communication with the Component Auditor

.36 The group engagement team should communicate its requirements to a component auditor on a timely basis. This communication should include the following:

a. A request that the component auditor, knowing the context in which the group engagement team will use the component auditor's work, confirm that the component auditor will cooperate with the group engagement team.

b. The ethical requirements relevant to the group audit and, in particular, the independence requirements.

c. A list of related parties prepared by group management and any other related parties of which the group engagement team is aware. The group engagement team should request that the component auditor communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team should identify such additional related parties to other component auditors.

d. Identified significant risks of material misstatement of the group financial statements, due to fraud or error, that are relevant to the component auditor's work (AU-C 600.41).

e. Any significant deviations in the methodologies or audit approaches that the component auditor uses that are different from those the group engagement team would have used and whether those deviations comply with GAGAS.

.37 The group engagement team should request that a component auditor communicate matters relevant to the group engagement team's conclusion with regard to the group audit. Such communication should include the following:

a. Whether the component auditor has complied with ethical requirements relevant to the group audit, including independence and professional competence.

b. Identification of the financial information of the component on which the component auditor is reporting.

c. The component auditor's overall findings, conclusions, or opinion (AU-C 600.42). See FAM 630.69 through .73 for additional requirements when assuming responsibility for the work of a component auditor.

Evaluating the Sufficiency and Appropriateness of Audit Evidence

.38 The group engagement team should evaluate a component auditor's communication (see FAM 630.36). The group engagement team should discuss significant findings and issues arising from that evaluation with the component auditor, component management, or group management, as appropriate (AU-C 600.43).

.39 The auditor is required to obtain sufficient appropriate audit evidence on which to base the audit opinion. The group engagement team should evaluate whether sufficient appropriate audit evidence on which to base the group audit opinion has been obtained from the audit procedures performed on the consolidation process and the work performed by the group engagement team and the component auditors on the financial information of the components (AU-C 600.44). If the group engagement team concludes that sufficient evidence has not been obtained, the group engagement team may request that the component auditor perform additional procedures or may alternatively perform its own procedures (AU-C 600.A71). If the group engagement team has concerns about whether the component auditor's work provides sufficient appropriate evidence, the group engagement team generally should discuss the matter with the group engagement partner before formally discussing the issue with the component auditor.

.40 Sometimes component auditors use methodologies or audit approaches that are different from those that the group engagement team would have used. Auditing requires a great deal of professional judgment and there often are alternative ways to achieve audit objectives. Many IPA firms have developed, at considerable expense, proprietary audit methodologies to use on a wide range of public and private sector clients. Many of these audit methodologies use electronic technology where all audit documentation exists only in electronic form. Thus, the group engagement team generally should understand the component auditor's audit methodology and basis for the nature, extent, and timing of audit procedures. This may require obtaining permission to use proprietary software to review the audit documentation. Additionally, where the IPA firm software is retained, the group engagement team should develop a process to maintain the operability of the software to access the audit documentation in the future.

As noted at FAM 630.36.e, the group engagement team should communicate its requirements for a component auditor to communicate any significant deviations in the methodologies or audit approaches used that are different from those that the group engagement team would have used and whether those deviations comply with GAGAS.

.41 The group auditor should determine the significance of the test results to the audit of the financial statements on which the component auditor is reporting. For example, the component auditor may have selected a nonstatistical sample and/or the sample size may be smaller than the sample size the group auditor would have selected. The group auditor may decide that this provides sufficient evidence in an area that is less material or has low or moderate risk of material

misstatement. However, if the risk of material misstatement is high, the group auditor may conclude that sufficient appropriate evidence has not been obtained and that additional work is needed.

In this case, after consulting with the group engagement partner, the group engagement team generally should either ask the component auditor to perform additional tests or perform the additional tests itself. If this additional testing is not done, the group engagement team should determine the effect of any scope limitation on the group auditor's report.

.42 Sometimes, the group engagement team may disagree with the conclusions or judgments of the component auditors. In such a case, the group engagement team should evaluate the component auditor's work as well as any other evidence or testing necessary to determine the appropriate conclusion.

.43 The group engagement team should discuss any issues of disagreement with the component auditors to attempt to resolve the disagreements. The group engagement team should attempt to resolve professional disagreements early to reduce confusion that may arise from differing auditor views. Once issues of disagreements are identified, the group engagement team should discuss the issues with the component auditors to resolve them in a timely manner and before the completion of the audit.

.44 If the group engagement team does not reach agreement with the component auditors, the group engagement team should determine the impact that such disagreement may have on its audit report.

.45 The group engagement partner should evaluate the effect on the group audit opinion of any uncorrected misstatements (either identified by the group engagement team or communicated by component auditors) and any instances in which there has been an inability to obtain sufficient appropriate audit evidence (AU-C 600.45).

.46 If a component auditor disclaims an opinion on the financial statements because of a scope limitation, the group engagement team should consider the effect on the group auditor's opinion. The group engagement team should confirm the nature and magnitude of the reason for the disclaimer. Additionally, the group engagement team generally need not hold discussions with entity management and/or perform additional audit procedures in this situation, and may limit the review of documentation to summary documentation. However, the group engagement team may do additional work to learn about the entity, to help the component auditor plan future audits, or to help entity management correct the causes of the scope limitation.

.47 If the component auditor's work had a scope limitation that results in a qualified opinion, the group engagement team should confirm the nature and magnitude of the reason for the qualification and determine the effect on the group auditor's opinion.

Communication with Group Management and Those Charged with Governance

.48 The group engagement team should communicate to group management and those charged with governance of the group material weaknesses and significant deficiencies in internal control that are relevant to the group (either identified by

the group engagement team or brought to its attention by a component auditor during the audit) (AU-C 600.46).

.49 If fraud has been identified by the group engagement team or brought to its attention by a component auditor or if information indicates that a fraud may exist, the group engagement team should communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for preventing and detecting fraud of matters relevant to their responsibilities (AU-C 600.47).

.50 When a component auditor has been engaged to express an audit opinion on the financial statements of a component, the group engagement team should request that group management inform component management of any matter of which the group engagement team becomes aware that may be significant to the financial statements of the component, but of which component management may be unaware. If group management refuses to communicate the matter to component management, the group engagement team should discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group engagement team, subject to legal and professional confidentiality considerations, should consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the component until the matter is resolved and whether to withdraw from the engagement (AU-C 600.48).

.51 The group engagement team should communicate the following matters—in addition to those FAM 215.24 through 36 require—to those charged with governance of the group:

a. An overview of the type of work to be performed on the financial information of the components, including the basis for the decision to make reference to the audit of a component auditor in the auditor's report on the group financial statements.

b. An overview of the nature of the group engagement team's planned involvement in the work that the component auditors are to perform on the financial information of significant components.

c. Instances in which the group engagement team's evaluation of a component auditor's work gave rise to a concern about the quality of that auditor's work.

d. Any limitations on the group audit (for example, when the group engagement team's access to information may have been restricted).

e. Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others in which a material misstatement of the group financial statements has or may have resulted from fraud (AU-C 600.49).

Documentation

.52 The group engagement team should include the following in the audit documentation:

a. An analysis of components indicating those that are significant and the type of work performed on the financial information of the components.

b. Those components for which reference to the reports of component auditors is made in the auditor's report on the group financial statements.

c. Written communications between the group engagement team and the component auditors about the group engagement team's requirements.

d. For those components for which reference is made in the auditor's report on the group financial statements to the audit of a component auditor,

   i. the financial statements of the component and the report of the component auditor thereon and

   ii. when the component auditor's report on the component's financial statements does not state that the audit of the component's financial statements was performed in accordance with GAGAS (which incorporates U.S. GAAS) or the standards promulgated by the PCAOB, the basis for the group engagement partner's determination that the component auditor's audit met the relevant requirements of GAGAS (AU-C 600.50).

See FAM 630.74 for additional requirements when assuming responsibility for the work of a component auditor.

.53 In addition, when the group engagement team performs additional audit procedures, the group engagement team'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 component auditor's documentation if that is the basis for the selection) and the group engagement team's conclusion. It is not necessary to retain copies of the documents examined.

.54 There is a difference between the group engagement team's responsibilities to review the documentation of component auditors and what the group engagement team may copy and retain from that documentation. The group engagement team uses professional judgment in deciding which of the component auditor's documents to copy and retain. However, many auditors use electronic technology to retain documentation for the entire audit. The group engagement team may cite this documentation as part of the review to include any additional audit procedures performed on the component auditor's work. The group engagement team may print any documents as necessary.

.55 The group engagement team may 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), audit strategy, audit procedures, LIRA and SCE forms (or equivalent), trial balance or lead schedules, management representation letter, and legal representation letter. Auditors often find it helpful to keep copies of documents (either electronically or in hard copy) in case questions are raised in review but not to include those copies in the audit documentation unless they are needed to document the work performed.

The group engagement team should retain documents in accordance with the contract or other legal requirements, but not less than 5 years from the report release date (AU-C 230.17). Audit procedures may indicate which documents to retain. These documents should be included in the final audit file by the documentation completion date (no later than 60 days after the report release date). The auditor should not discard documents between the documentation

completion date and the end of the specified retention period (AU-C 230.16 through .17). In documenting the review, auditors may indicate the document number or index number used by the component auditor in order to locate the document at a later date.

Ownership and confidentiality of audit documentation is determined by contract and other legal requirements (see AU-C 230.A29).

See FAM 630.74 for additional requirements when assuming responsibility for the work of a component auditor.

Additional Procedures if Assuming Responsibility for a Component Auditor's Work

Materiality

.56 During an audit of a component's financial information in which the auditor of the group financial statements is assuming responsibility for the component auditor's work, the group engagement team should evaluate the appropriateness of performance materiality at the component level (AU-C 600.51).

Determining the Type of Work to Be Performed on the Financial Information of Components

.57 For components for which the auditor of the group financial statements is assuming responsibility for the component auditors' work, the group engagement team should determine the type of work to be performed by the group engagement team or by component auditors on its behalf on the components' financial information. The group engagement team also should determine the nature, timing, and extent of its involvement in the work of component auditors (see FAM 630.09 through .10 for a suggested framework for planning and performing a low, moderate, or high level of review of the component auditor's documentation) (AU-C 600.52).

.58 The group engagement team alone is responsible for determining the extent of additional procedures, if any, based on professional judgment. This determination in no way constitutes a reflection on the adequacy of the auditor's work.

.59 The objective of these additional procedures is for the group engagement team to obtain additional evidence about whether key items are properly handled and supported by sufficient appropriate evidence. For example, the group engagement team generally should discuss key items with entity management, especially estimates and judgments. This discussion generally should be conducted with the component auditors present. The group engagement team generally should attend the entrance and exit conferences and other key meetings held by component auditors. For key items that have high risk of material misstatement, discussions with entity management may not provide sufficient evidence, and the group auditor should perform additional audit procedures.

.60 The group engagement team may perform additional audit procedures on a selection of the component auditor's work, and/or additional tests of the accounting records. To perform additional audit procedures, the group

engagement team should obtain access to the entity's personnel and its books and records. The group engagement team may coordinate access to the entity's personnel and records through the component auditor. The group engagement team and the component auditor also may jointly perform parts of a test, where the sample is planned jointly and the results are evaluated jointly. Although additional audit procedures are usually performed only when the level of review is high, the group engagement team may perform additional audit procedures in other situations to learn about the entity, to help the component auditor plan future audits, or to help entity management correct problems.

.61 The group engagement team generally should limit discussions with entity management and/or additional audit procedures to significant assertions in line items that have a high risk of material misstatement. This is especially true in areas involving estimates and judgments or in areas on which users place extensive reliance. The group engagement team's additional audit procedures generally should include some items tested by the component auditor, particularly any that appear to be exceptions, in order to determine whether they were appropriately evaluated in formulating an opinion. The group engagement team generally should plan to perform additional audit procedures while the component auditors are at the entity and have access to records, as this can minimize the inconvenience for everyone.

Significant Components

.62 For a component that is significant due to its individual financial significance to the group, the group engagement team, or a component auditor on its behalf, should perform an audit of the financial information of the component, adapted as necessary to meet the needs of the group engagement team, using component materiality (AU-C 600.53).

.63 For a component that is significant not due to its individual financial significance but because it is likely to include significant risks of material misstatement of the group financial statements due to its specific nature or circumstances, the group engagement team, or a component auditor on its behalf, should perform one or more of the following:

a. An audit, adapted as necessary to meet the needs of the group engagement team, of the financial information of the component, using component materiality.

b. An audit, adapted as necessary to meet the needs of the group engagement team, of one or more account balances, classes of transactions, or disclosures relating to the likely significant risks of material misstatement of the group financial statements.

c. Specified audit procedures relating to the likely significant risks of material misstatement of the group financial statements (AU-C 600.54).

Components That Are Not Significant

.64 For components that are not significant components, the group engagement team should perform analytical procedures at the group level (AU-C 600.55).

.65 In some circumstances, the group engagement team may determine that sufficient appropriate audit evidence on which to base the group audit opinion will not be obtained from the following:

a. The work performed on the financial information of significant components.

b. The work performed on group-wide controls and the consolidation process.

c. The analytical procedures performed at group level.

In such circumstances, the group engagement team should select additional components that are not significant components and should perform or request that a component auditor perform one or more of the following on the financial information of the individual components selected:

- An audit, adapted as necessary to meet the needs of the group engagement team, of the financial information of the component, using component materiality.
- An audit, adapted as necessary to meet the needs of the group engagement team, of one or more account balances, classes of transactions, or disclosures.
- A review of the financial information of the component, adapted as necessary to meet the needs of the group engagement team, using component materiality.
- Specified audit procedures.

The group engagement team should vary the selection of such individual components over a period of time (AU-C 600.56).

Involvement in the Work Performed by Component Auditors

Significant Components – Risk Assessment

.66 When a component auditor performs an audit or other specified audit procedures of the financial information of a significant component for which the auditor of the group financial statements is assuming responsibility for the component auditor's work, the group engagement team should be involved in the risk assessment of the component to identify significant risks of material misstatement of the group financial statements. The nature, timing, and extent of this involvement are affected by the group engagement team's understanding of the component auditor but, at a minimum, should include the following:

a. Discussing with the component auditor or component management the component's business activities of significance to the group.

b. Discussing with the component auditor the susceptibility of the component to material misstatement of the financial information due to fraud or error.

c. Reviewing the component auditor's documentation of identified significant risks of material misstatement of the group financial statements. Such documentation may take the form of a memorandum that reflects the component auditor's conclusion with regard to the identified significant risks. (AU-C 600.57)

Further Audit Procedures for Identified Significant Risk of Material Misstatement of the Group Financial Statements

.67 When significant risks of material misstatement of the group financial statements have been identified at a component for which the auditor of the group financial statements is assuming responsibility for the work of the component's auditor, the group engagement team should evaluate the appropriateness of the further audit procedures to be performed to respond to the identified significant risks of material misstatement of the group financial statements. Based on its understanding of the component auditor, the group engagement team should determine whether it is necessary to be involved in the further audit procedures (AU-C 600.58).

Subsequent Events

.68 When component auditors perform work other than audits of the components' financial information at the request of the group engagement team, the group engagement team should request that the component auditors notify the group engagement team if they become aware of events at those components that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements that may require an adjustment to, or disclosure in, the group financial statements (AU-C 600.59).

Communication with a Component Auditor

.69 When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the communication required in FAM 630.36 should set out the work to be performed and the form and content of the component auditor's communication with the group engagement team. It also should include, in the case of an audit or review of the financial information of the component, component materiality (and the amount or amounts lower than the materiality for particular classes of transactions, account balances, or disclosures, if applicable) and the threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements (AU-C 600.60).

.70 When the auditor of the group financial statements is assuming responsibility for the work of a component auditor, the communication requested from the component auditor, as required in FAM 360.37, also should include the following:

a. Whether the component auditor has complied with the group engagement team's requirements.

b. Information on instances of noncompliance with provisions of applicable laws or regulations at the component or group level that could give rise to a material misstatement of the group financial statements.

c. Significant risks of material misstatement of the group financial statements, due to fraud or error, identified by the component auditor in the component and the component auditor's responses to such risks. The group engagement team should request that the component auditor communicate such significant risks on a timely basis.

d. A list of corrected and uncorrected misstatements of the financial information of the component (the list need not include misstatements that are below the

threshold for clearly trivial misstatements communicated by the group engagement team).

e. Indicators of possible management bias regarding accounting estimates and the application of accounting principles.

f. Description of any identified material weaknesses and significant deficiencies in internal control at the component level.

g. Other significant findings and issues that the component auditor communicated or expects to communicate to those charged with governance of the component, including fraud or suspected fraud involving component management, employees who have significant roles in internal control at the component level, or others that resulted in a material misstatement of the component's financial information.

h. Any other matters that may be relevant to the group audit or that the component auditor wishes to draw to the attention of the group engagement team, including exceptions noted in the written representations that the component auditor requested from component management (AU-C 600.61).

Evaluating a Component Auditor's Communication and Adequacy of the Component Auditor's Work

.71 The group engagement team should determine, based on the evaluation required in FAM 630.38, whether it is necessary to review other relevant parts of a component auditor's audit documentation (see FAM 630.09 through .10 for a suggested framework for planning and performing a low, moderate, or high level of review of the component auditor's documentation) (AU-C 600.62).

.72 If the group engagement team concludes that the work of a component auditor is insufficient, the group engagement team should determine additional procedures to be performed and whether they are to be performed by the component auditor or by the group engagement team (AU-C 600.63).

Communication with Group Management and Those Charged with Governance

.73 If assuming responsibility for the component auditors' work, the group engagement team should determine which material weaknesses and significant deficiencies in internal control that component auditors have brought to the attention of the group engagement team should be communicated to group management and those charged with governance of the group (AU-C 600.64).

Documentation

.74 The group engagement team should include in the audit documentation the nature, timing, and extent of the group engagement team's involvement in the work performed by the component auditors on significant components, including, when applicable, the group engagement team's review of relevant parts of the component auditors' audit documentation and conclusions thereon (AU-C 600.65).

640 – Entities Using a Service Organization

.01 FAM 640 provides guidance to auditors when considering the services provided to the entity by a service organization. As discussed in FAM 310, the auditor should obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the entity's internal control relevant to the audit (AU-C 402.07).

.02 Many entities outsource aspects of their business activities to organizations that provide services ranging from performing a specific task under the direction of the entity to replacing entire business units or functions of the entity. Many of the services provided by such organizations are integral to an entity's business operations; however, not all of those services are relevant to an audit (AU-C 402.02). Services provided by service organizations that may be relevant to an audit include maintenance of the entity's accounting records; management of the user entity's assets; and initiating, authorizing, recording, or processing transactions as an agent of the user entity.

.03 Services provided by a service organization are relevant to the audit of an entity's financial statements when those services and the controls over them affect the entity's information system, including related business processes, relevant to financial reporting. Although most controls at a service organization are likely to relate to financial reporting, other controls also may be relevant to the audit, such as controls over the safeguarding of assets. A service organization's services are part of an entity's information system, including related business processes, relevant to financial reporting if these services affect any of the following:

a. The classes of transactions in the entity's operations that are significant to the entity's financial statements.

b. The procedures within both information technology and manual systems by which the entity's transactions are initiated, authorized, recorded, processed, corrected as necessary, transferred to the general ledger, and reported in the financial statements.

c. The related accounting records, supporting information, and specific accounts in the entity's financial statements that are used to initiate, authorize, record, process, and report the entity's transactions. This includes correcting of incorrect information and how information is transferred to the general ledger; the records may be in either manual or electronic form.

d. How the entity's information system captures events and conditions, other than transactions, that are significant to the financial statements.

e. The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures.

f. Controls surrounding journal entries—including nonstandard journal entries used to record nonrecurring, unusual transactions—or adjustments (AU-C 402.03).

.04 The nature and extent of work to be performed by the auditor regarding the services provided by a service organization depend on the nature and significance of those services to the entity and the relevance of those services to the audit (AU-C 402.04). If the auditor has determined based on FAM 300 that key internal control activities are designed and implemented by a service

organization, then the auditor should follow the guidance outlined in the remaining paragraphs of this section. If the auditor has determined that the service organization's internal control activities are not key to the audit (i.e., not included on the SCE worksheet), then the guidance in this section may not be applicable.

.05 The auditor should obtain and read the relevant service organization report(s). (AU-C 402.16.a.) A service organization may provide the entity with one of the following:

a. a report on management's description of a service organization's system and the suitability of the design of controls (referred to as a type 1 report) or

b. a report on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls (referred to as a type 2 report).

Typically, the auditor will obtain a type 2 report that provides audit evidence that controls at the service organization are operating effectively (AU-C 402.17).

.06 If the auditor plans to use a type 2 report as audit evidence that controls at the service organization are operating effectively, the auditor should determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the auditor's risk assessment by

a. evaluating whether the type 2 report is for a period that is appropriate for the auditor's purposes;

b. determining whether complementary user entity controls that the service organization identified are relevant in addressing the risks of material misstatement relating to the relevant assertions in the entity's financial statements and, if so, obtaining an understanding of whether the entity has designed and implemented such controls and, if so, testing their operating effectiveness;

c. evaluating the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and

d. evaluating whether the tests of controls that the service auditor performed and the results thereof, as described in the service auditor's report, are relevant to the assertions in the entity's financial statements and provide sufficient appropriate audit evidence to support the auditor's risk assessment (AU-C 402.17).

An example of an assessment tool can be found at FAM 640 A. This tool is designed to assist the auditor in meeting and documenting the requirements of this paragraph.

.07 In responding to assessed risks in accordance with FAM 420, the auditor should determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the entity. If not, then the auditor should perform further audit procedures to obtain sufficient appropriate audit evidence or use another auditors to perform those procedures at the service organization on the auditor's behalf (AU-C 402.15).

If the auditor cannot obtain appropriate audit evidence from a service organization report (or no report is available), see FAM 310.11.

.08 If the auditor concludes that additional evidence about the operating effectiveness of controls at the service organization is required, the audit's additional procedures might include (AU-C 940.A146)

a. evaluating procedures that management performed and the results of those procedures, if applicable;

b. contacting the service organization, through the entity, to obtain specific information;

c. requesting that a service auditor be engaged to perform procedures that will supply the necessary information about the relevant controls at the service organization; and

d. visiting the service organization and performing such procedures.

.09 There may be instances in which a service organization uses another service organization (subservice organization) to perform services that are likely to be relevant to the user entity's internal control over financial reporting. The service organization report will describe either of the following:

a. Inclusive method: Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system includes a description of the nature of the services that the subservice organization provided as well as the subservice organization's relevant control objectives and related controls.

b. Carve-out method: Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system identifies the nature of the services that the subservice organization performed and excludes from the description and from the scope of the service auditor's engagement the subservice organization's relevant control objectives and related controls (AT-C 320.08).

If the auditor plans to use a type 1 or a type 2 report that excludes the services provided by a subservice organization and those services are relevant to the audit of the entity's financial statements, the auditor should apply the requirements of this section with respect to the services provided by the subservice organization (AU-C 402.18). FAM 640 A is a tool is designed to assist the auditor in meeting and documenting the requirements of this paragraph.

.10 Typically, the auditor should not refer to the service auditor's report (when expressing an opinion on internal control (AU-C 940.96) or an unmodified opinion on the financial statements (AU-C 402.21)). If otherwise, see AU-C 402 for further guidance.

640 A – Service Organization Type 2 Report Assessment Tool

Review of Service Organization Type 2 Reports Prepared by External Service Organizations That Are Relevant and Significant to Financial Reporting

The auditor may complete the following tool for each service organization report (per AT-C 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting)* prepared for a service organization that performs internal control procedures that are determined to be relevant and significant to financial reporting. If available, the auditor should obtain or arrange access to (1) the most recent service organization type 2 report; (2) documentation of entity's most recent review of the type 2 service organization report prepared, if applicable; and (3) the most recent peer review report for the audit organization that prepared the service organization report.

Based on review of this documentation, this tool will assist the auditor in determining the following:

.01 Whether the internal controls at the service organization provide reasonable assurance that

a. the timing, objectives, scope, and methodology of the report were sufficient relative to entity's internal control objectives;

b. internal control over the processes affecting the entity's transactions at the service organization were effective;

c. the integrity and completeness of the transactions and associated sensitive information were appropriately safeguarded, any resulting balances were not materially misstated, and any applicable laws and regulations were complied with; and

d. any internal control exceptions were reported, including consideration of their implications for the entity and any necessary compensating procedures.

.02 Whether the entity

a. appropriately documented the scope and nature of its review of the service organization report;

b. appropriately assessed the extent to which complementary user entity controls were applicable and significant to entity, and whether the entity has the appropriate associated complementary internal controls in place; and

c. based on its review, reached conclusions that are reasonable, appropriately documented, and materially consistent with the auditor's conclusions.

I Name of Service Organization

ABC Service Organization

II. Description of Service Provided or Name of Financial Reporting System(s) the Service Organization Owns/Operates

ABC Service Organization processes XYZ Entity's payroll transactions. ABC Service Organization owns and operations XXX IT system to process payroll.

III. Description of Financial Statement Impact (e.g., nature of entity transactions processed, prior-year or year-to-date dollar value, transaction volume, and how it is reported in the financial statements)

Payroll transactions are recorded in "Payroll Expense" line item in the Statement of Net Cost and "Accrued Liabilities" line item on the Balance Sheet. For FY 20XX, the amount of Payroll Expense was $XXX million and the amount of Accrued Liabilities (related to payroll) was $XXX million. Transactions are recorded biweekly.

IV. Type of Report (I or II)

SOC 1 Type II Report

V. Date of the Service Organization Report and the Period Covered

October 1, 20XX, through June 30, 20X1

VI. Name of the Service Auditor and Date of Most Recent Peer Review Report

IPA Public Accountants.
Peer review report certified through November 30, 20XX.

VII. Audit Cycles Affected by the Service Organization

Payroll cycle and Accounts Payable cycle

VIII. List of the Controls from the SCE Worksheet That Are Being Reviewed for This Service Organization Report

SCE.1:

1a.1 Only authorized users have access to XXX IT System.

2a.2 ABC Service Organization accountant prepares a monthly reconciliation of payroll disbursements recorded in XXX IT System and the reconciliation is reviewed and approved by the ABC Service Organization manager.

IX. Observations and Conclusions

640 A – Service Organization Type 2 Report Assessment Tool

Questions	Comments with initials and date	Conclusion	Audit documentation indexes
Assess service auditor's independence and professional competence			
1) Is there a statement in the service organization report describing the service auditor's independence? If not, assess the service auditor's independence from the service organization using chapter 3 of GAGAS (2011) (Independence).			
2) Is there a recent peer review report for the service auditor? If so, determine whether the auditor passed, passed with deficiencies, or failed its peer review. If a peer review report is not available, assess the service auditor's competence using chapter 3 of GAGAS (2011) (Competence).			
Assess the time period covered by the service organization report			
3) Is the time period covered by the report appropriate for use in supporting conclusions as of [**balance sheet date**]?			
4) Is the time period of the service organization report the same as the entire period of the financial statement audit? If not, assess whether additional procedures are needed to obtain sufficient appropriate audit evidence for the period not covered by the report. Additional procedures could include (a) obtaining and reviewing a bridge report/letter (or equivalent), (b) obtaining and reviewing an additional service organization report to cover the audit period, and (c) testing the operating effectiveness of selected controls at the service organization.			
5) When a significant period of time has elapsed between the time period covered by the tests of controls in the service auditor's report and the date specified in management's assertion, additional procedures should be performed. The auditor should inquire of management to determine whether management has identified any changes in the service organization's controls subsequent to the period covered by the service auditor's report (such as changes communicated to management by the service organization, changes in service organization personnel with whom management interacts, changes in reports or other data received from the service organization, changes in contracts or service-level agreements with the service organization, or errors identified in the service organization's processing). If management has identified such changes, the auditor should evaluate the effect of such changes on the effectiveness of the entity's internal control. The auditor also should evaluate whether the results of other procedures that the auditor performed indicate that there have been changes in the controls at the service organization. (AU-C 940).			

Questions	Comments with initials and date	Conclusion	Audit documentation indexes
Evaluate the sufficiency and appropriateness of the evidence provided by the service organization report A service organization type 2 report can provide audit evidence that controls at the service organization are operating effectively and support the user auditor's risk assessment.			
6) Are the key internal control activities listed in section VIII of this assessment tool included in the service organization report?			
7) For the complementary user entity controls (and complementary subservice organization controls, if applicable) identified in the service organization report considered to be relevant and significant, has the entity designed and implemented such controls and are such controls included on the SCE worksheet?			
8) Are the complementary user entity controls identified in step 7 tested and deemed effective in the SCE worksheets? If no, see step 10 below.			
9) Were any exceptions identified in the service organization report? If so, describe the exceptions in the comment blocks at right that have an impact on the key internal controls activities listed in section VIII and see step 10 below.			
10) If the key internal control activity is deemed to be ineffective in steps 8 and 9, were there effective compensating controls in place?			
Entity's evaluation of the service organization report (if applicable)			
11) Did the entity appropriately review and assess the contents of the service organization report, including identification and appropriate consideration of its timing, objectives, scope and methodology, reported internal control exceptions (if any), and complementary user entity controls? Document any significant omission.			
12) Did the entity appropriately document the results of its review of the service organization report?			
13) Were the entity's conclusions and any significant subsequent actions taken (or lack thereof) based on the entity's review of the report appropriate?			
Additional observations, if any			

645 – Using the Work of an Internal Auditor

Overview

.01 Certain entities employ auditors to work for entity management. These auditors may be subject to administrative direction from persons involved in the entity management process. Such audit organizations are internal auditors. FAM 645 addresses the auditor's responsibilities when using the work of internal auditors. Using the work of internal auditors includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision, and review of the auditor (AU-C 610.01).

For purposes of U.S. GAAS the meanings of the following terms are as follows:

- Internal audit function - a function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management, and internal control processes.
- Direct assistance - the use of internal auditors to perform audit procedures under the direction, supervision, and review of the auditor (AU-C 610.12).

.02 The auditor may be able to use the work of the internal audit function in obtaining audit evidence in a constructive and complementary manner depending on

a. the level of competency of the internal audit function;

b. whether the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and

c. whether the function applies a systematic and disciplined approach, including quality control (AU-C 610.06).

This section addresses the auditor's responsibilities when, based on the auditor's understanding of the internal audit function obtained as a result of procedures performed in accordance with FAM 220 and 260, the auditor expects to use the work of the internal audit function in obtaining audit evidence. Such use of that work modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the auditor (AU-C 610.06).

.03 This section also addresses the auditor's responsibilities if the auditor is considering using internal auditors to provide direct assistance under the direction, supervision, and review of the auditor (AU-C 610.07).

.04 There may be individuals in an entity who perform procedures similar to those performed by an internal audit function. However, unless such procedures are performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered control activities, and obtaining evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with FAM 400 (AU-C 610.08).

.05 The auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of the internal audit function in obtaining audit evidence or use of internal auditors to provide direct assistance on the engagement. Although the function may perform audit

procedures similar to those performed by the auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the auditor in an audit of financial statements in accordance with AU-C 200. This section, therefore, defines the conditions that are necessary for the auditor to be able to use the work of internal auditors. It also defines the effort necessary to obtain sufficient appropriate evidence that the work of the internal audit function or internal auditors providing direct assistance is adequate for the purposes of the audit. The requirements are designed to provide a framework for the auditor's judgments regarding the use of the work of internal auditors to prevent overuse or undue use of such work (AU-C 610.09).

Internal Audit Function

Planning for Using the Work of the Internal Audit Function

.06 The auditor should determine whether the work of the internal audit function can be used in obtaining audit evidence by evaluating the following:

a. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors.

b. The level of competence of the internal audit function.

c. The internal audit function's application of a systematic and disciplined approach, including quality control (AU-C 610.13). Factors that may affect this determination can include whether internal audit procedures include areas such as risk assessments, work programs, documentation, and reporting. Another factor includes whether the internal audit function has appropriate quality control requirements in standards set by relevant professional bodies for internal auditors (AU-C 610.A13).

See FAM 615 for guidance on evaluating the objectivity and competence of the internal audit function.

.07 The auditor should not use the work of the internal audit function in obtaining audit evidence if the external auditor determines that

a. the function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;

b. the function lacks sufficient competence; or

c. the function does not apply a systematic and disciplined approach, including quality control (AU-C 610.14).

.08 As a basis for determining the areas and the extent to which the work of the internal audit function can be used, the auditor should consider the nature, timing, and extent of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the auditor's overall audit strategy and audit plan (AU-C 610.15). For example, internal auditors may be performing tests of relevant controls that address a material misstatement related to the completeness of accounts payable. Alternatively, the internal auditors may be observing physical inventories. In either case, the auditor may change the timing or scope of its own testing when using the work of internal auditors (AU-C 610.A20).

.09 The auditor should make all significant judgments in the audit engagement, including when using the work of the internal audit function in obtaining audit evidence (AU-C 610.16).

.10 To prevent undue use of the internal audit function in obtaining audit evidence, the auditor should plan to use less of the work of the function and perform more of the work directly

a. when there are greater levels of judgment involved in
   - planning and performing relevant audit procedures or
   - evaluating the audit evidence obtained;

b. the higher the assessed risk of material misstatement at the assertion level, with special consideration given to significant risks;

c. the less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and

d. the lower the level of competence of the internal audit function (AU-C 610.17).

.11 The auditor should also evaluate whether, in aggregate, using the work of the internal audit function in obtaining audit evidence to the extent planned, together with any planned use of internal auditors to provide direct assistance, would result in the auditor still being sufficiently involved in the audit, given the auditor's sole responsibility for the audit opinion expressed (AU-C 610.18). This evaluation should consider the auditor's ability to address all relevant requirements of this section and of AU-C 610 and other standards. It is not anticipated that the auditor's evaluation of using work of the internal audit function would be based on a quantitative analysis, such as percentage of hours spent by internal audit personnel in respect of the work being used by the auditor relative to total engagement hours (AU-C 610.A23).

.12 In communicating an overview of the planned scope and timing of the audit to those charged with governance in accordance with AU-C 260, the auditor should communicate how the auditor has planned to use the work of the internal audit function in obtaining audit evidence (AU-C 610.19). See FAM 215 for general guidance on communicating with those charged with governance.

.13 If the auditor plans to use the work of the internal audit function in obtaining audit evidence, the auditor should discuss the planned use of the work with the internal audit function as a basis for coordinating their respective activities (AU-C 610.20).

.14 The auditor should read the reports of the internal audit function that relate to the work of the function that the auditor plans to use to obtain an understanding of the nature and extent of audit procedures the internal audit function performed and the related findings (AU-C 610.21).

Evaluating the Work of the Internal Audit Function

.15 The auditor should perform sufficient audit procedures on the body of work of the internal audit function as a whole that the auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether

a. the work of the function was properly planned, performed, supervised, reviewed, and documented;

b. sufficient appropriate evidence was obtained to enable the function to draw reasonable conclusions; and

c. conclusions reached are appropriate in the circumstances, and the reports prepared by the function are consistent with the results of the work performed (AU-C 610.22).

.16 The nature and extent of the auditor's audit procedures should respond to the auditor's evaluation of

a. the amount of judgment involved in

- planning and performing relevant audit procedures and
- evaluating the audit evidence obtained;

b. the assessed risk of material misstatement;

c. the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and

d. the function's level of competence (AU-C 610.23).

.17 The auditor should also reperform some of the body of work of the internal audit function that the auditor intends to use in obtaining audit evidence (AU-C 610.23). The auditor may focus this reperforming on areas where more judgment was used by the internal audit function in planning, performing, and evaluating the results of the audit procedures and in areas at higher risk of material misstatement (AU-C 610.A36).

.18 Before the conclusion of the audit, the auditor should evaluate whether the auditor's conclusions regarding the internal audit function based on FAM 645.06 and the determination of the nature and extent of use of the work of the function for purposes of the audit in FAM 645.09 through .11 remain appropriate (AU-C 610.24).

Direct Assistance

Planning for Internal Auditors to Provide Direct Assistance

.19 If the auditor plans to use internal auditors to provide direct assistance on the audit, the auditor should evaluate the existence and significance of threats to the objectivity of the internal auditors who will be providing direct assistance, as well as any safeguards applied to reduce or eliminate the threats, and the level of competence of the internal auditors who will be providing such assistance. (AU-C 610.25) See FAM 615 for guidance on evaluating the objectivity and competence of internal auditors providing direct assistance.

.20 The auditor should not use an internal auditor to provide direct assistance if

a. the internal auditor lacks the necessary objectivity to perform the proposed work or

b. the internal auditor lacks the necessary competence to perform the proposed work. (AU-C 610.26)

.21 In determining the nature and extent of work that may be assigned to internal auditors providing direct assistance and the nature, timing, and extent of direction, supervision, and review that is appropriate in the circumstances, the auditor should consider

a. the auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity, the effectiveness of the safeguards applied to reduce or eliminate the threats, and the level of competence of the internal auditors who will be providing such assistance;

b. the assessed risk of material misstatement; and

c. the amount of judgment involved in

- planning and performing relevant audit procedures and
- evaluating the audit evidence obtained. (AU-C 610.27)

.22 Examples of work not appropriate for assigning to internal auditors providing direct assistance include fraud risk inquiries to management and the determination of unpredictable audit procedures as addressed in FAM 260 (AU-C 610.A43).

.23 The auditor should evaluate whether, in aggregate, using internal auditors to provide direct assistance to the extent planned, together with any planned use of the work of the internal audit function in obtaining audit evidence, would result in the auditor still being sufficiently involved in the audit, given the auditor's sole responsibility for the audit opinion expressed (AU-C 610.29).

.24 In communicating an overview of the planned scope and timing of the audit with those charged with governance in accordance with AU-C 260, the auditor should communicate how the auditor plans to use internal auditors to provide direct assistance (AU-C 610.28). See FAM 215 for general guidance on communicating with those charged with governance.

.25 Prior to using internal auditors to provide direct assistance, the auditor should obtain written acknowledgment from management or those charged with governance, as appropriate, that internal auditors providing direct assistance to the auditor will be allowed to follow the auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the auditor (AU-C 610.30).

.26 This written acknowledgment may be included within the audit engagement letter (or other suitable form of written agreement of the terms of engagement) or could be included in a separate document prepared by the auditor and acknowledged in writing by management or those charged with governance, as appropriate (AU-C 610.A45).

Evaluating the Use of Internal Auditors Providing Direct Assistance

.27 The auditor should direct, supervise, and review the work performed by internal auditors on the engagement in accordance with FAM 215. In so doing:

a. the nature, timing, and extent of direction, supervision, and review should be responsive to the outcome of the evaluation of the factors in paragraph .20;

b. the auditor should instruct the internal auditors to bring accounting and auditing issues identified during the audit to the attention of the auditor; and

c. the review procedures should include the auditor testing some of the work performed by the internal auditors (AU-C 610.31).

.28 When directing, supervising, and reviewing the work performed by internal auditors, the auditor should remain alert for indications that the auditor's evaluations of internal auditors' objectivity and competence (FAM 645.19) and of the auditor's level of involvement in the audit (FAM 645.23) are no longer appropriate (AU-C 610.32).

Documentation

.29 If the auditor uses the work of the internal audit function in obtaining audit evidence, the auditor should include the following in the audit summary memorandum:

a. The results of the evaluation of

- the function's organizational status and relevant policies and procedures to adequately support the objectivity of the internal auditors;
- the level of competence of the function; and
- the function's application of a systematic and disciplined approach, including quality control.

b. The nature and extent of the work used (including the period covered by, and the results of, such work) and the basis for that decision.

c. The audit procedures performed by the auditor to evaluate the adequacy of the work used, including the procedures performed by the auditor to reperform some of the body of work of the internal audit function in obtaining audit evidence (AU-C 610.33).

.30 If the auditor uses internal auditors to provide direct assistance on the audit, the auditor should include the following in the audit summary memorandum:

a. The evaluation of the existence and significance of threats to the objectivity of the internal auditors, as well as any safeguards applied to reduce or eliminate the threats, and the level of competence of the internal auditors who provided direct assistance.

b. The basis for the decision regarding the nature and extent of the work performed by the internal auditors.

c. The nature and extent of the auditor's review of the internal auditors' work (including the testing, by the auditor, of some of the work that the internal auditors performed) in accordance with FAM 290.

The auditor should also include in the audit documentation the working papers prepared by the internal auditors who provided direct assistance on the audit engagement (AU-C 610.34).

If the auditor uses the work of the internal audit function in obtaining audit evidence, internal auditors to provide direct assistance, or both, the auditor should include in the audit summary memorandum the auditor's evaluation of (see FAM 645.11 and .23) whether, either individually or in aggregate as

applicable, using the work of the internal audit function in obtaining audit evidence and use of internal auditors to provide direct assistance resulted in the auditor still being sufficiently involved in the audit, given the auditor's sole responsibility for the audit opinion expressed (AU-C 610.35).

670 – IG Oversight of Audits Performed by Contracted Independent Public Accounting (IPA) Firms

.01 IGs may be in situations where they contract with an IPA firm to perform financial statement audits, however, the IG still retains oversight responsibility of the IPA firm. FAM 670 provides guidance to IGs in designing procedures for the oversight of IPA firms contracted to perform financial statement audits, to assure that the IPA firms comply with the audit standards established by the Comptroller General of the United States (GAGAS). This guidance applies to financial statement audits required by law for federal executive agencies and government corporations[6]. The purpose of this guidance is to assist IGs in fulfilling the requirement that such financial statement audits are performed in accordance with GAGAS, and the requirement of the Inspector General Act of 1978, as amended, (IG Act) that the IG take appropriate steps to assure that any work performed for audits of federal establishments, organizations, programs, activities, and functions by nonfederal auditors complies with GAGAS. Except in cases where the Comptroller General performs the audit of a federal entity financial statement[7], for those entities with IGs, the IGs have the responsibility to audit their financial statements or to select and participate in the contracting of IPA firms to perform the audits. If an IG makes the decision to contract with an IPA firm to perform the audit, the IG is responsible for oversight and monitoring of the IPA firm to assure compliance with GAGAS. In addition, the IG generally should communicate written results of its oversight and monitoring of the IPA to entity management or those charged with governance.

.02 The guidance in this section is <u>not</u> to be used by a group engagement team in its assessment of the work of a component auditor or specialist (FAM 630), a management specialist (FAM 625), a service organization's auditor (FAM 640), or an internal auditor (FAM 645).

.03 For purposes of the remainder of this section, the use of the terms auditor or IG refers to the individual or entity overseeing of an IPA firm's work as described in FAM 670.01 and not to a group or component auditor.

.04 Auditors should develop comprehensive policies and procedures when providing oversight of the work of an IPA firm in the following areas, as applicable:

- fulfilling entity contracting requirements for obtaining and monitoring the services of a contracted IPA firm;
- complying with the requirements of the IG Act, federal financial statement audit requirements, and related guidance from OMB, and Treasury;
- implementing the guidance in FAM 670 regarding considerations to assure the IPA firm's compliance with GAGAS;
- determining the appropriate level of oversight and monitoring of an IPA firm for an organization's financial statements audits; and

[6] 31 U.S.C 3521, 9105. The Chief Financial Officers Act, as expanded by the Government Management Reform Act,and the Accountability for Tax Dollars Act.

7 The Comptroller General may perform an executive agency or government corporation financial statement audit at his or her discretion, at the request of a committee of Congress, or otherwise as required by law.

- appropriate involvement with the group auditor (see FAM 630).

.05 An IG may choose to contract with an IPA firm to audit its entity's financial statements. The IG may use a contracting process that is part of its organization, a procurement function within the entity to be audited, or a third party's (e.g., another government agency) procurement function. However, to fulfill its statutory responsibility to determine the IPA firm, the IG plays an important role in contracting for the IPA firm even when legal authority to award the contract rests with a contracting office of the entity being audited.[8] The IG generally should

- ensure that the contract provides for full and timely access to appropriate IPA firm individuals and audit documentation for IG review;
- coordinate closely with the contracting office to ensure a timely solicitation and award for an IPA firm's contracted services;
- serve as a subject matter expert in developing the contract, task orders if applicable, and the statement of work;
- ensure that the contract clearly establishes the scope for a financial statement audit in accordance with GAGAS, other relevant federal requirements, and any other scope issues specific to the entity (internal control, FFMIA, etc.);
- chair the technical evaluation panel for the acquisition, assist in selecting the members in the panel, and make a recommendation for award to the contracting officer; and
- act as the contracting officer's representative to assist in the administration of the contract, monitor technical compliance, and assist the contracting officer to ensure contractor compliance with the terms and conditions of the contract.

.06 When providing oversight of an audit performed by an IPA firm, the auditor's considerations should include

- evaluating the IPA firm's independence, objectivity, and competence (FAM 670.08);
- determining the type of written communication that the auditor will issue, general level of oversight to perform, and scope of review of the IPA firm's audit documentation (FAM 670.09 through .11 and FAM 670 A); and
- communicating the written results of the auditor's oversight of the IPA firm's audit to management, those charged with governance, and other interested parties (FAM 670.21 through .22).

.07 The auditor and IPA firm generally should coordinate throughout the audit to ensure that statutory, regulatory, contractual, and policy requirements related to the financial statement audit are met. The IPA firm should also provide the auditor full and timely access to appropriate audit team members and audit documentation for review (GAGAS (2011) 4.16). This may occur on an ongoing basis during the audit, although supervisory review within the IPA firm may not have been fully completed.

[8]Under the CFO Act, as amended, if the executive entity has an IG, but neither the entity's IG nor the Comptroller General is performing the audit of the entity's financial statements, then the entity's IG is required to determine the independent external auditor (e.g., IPA firm) that will perform the work. 31 U.S.C. 3521, 9105.

The Independence, Objectivity, and Competence of the IPA Firm

.08 The auditor should evaluate whether the IPA firm is independent and objective with respect to the audited entity. The auditor should also evaluate the IPA firm's competence and capabilities to perform the audit. See FAM 615 for additional guidance.

Planning the Review of the IPA Firm's Audit Work

.09 The auditor should determine the type of written communication the auditor will issue, and then develop a strategy and plan for overseeing the IPA firm's work. The strategy should be driven by a risk-based approach, which depends on the type of communication the auditor plans on issuing. In this strategy, the auditor should document the planned level of review as moderate or low.

Table 670.1 presents an overview of the suggested level of review the auditor generally should perform for the two types of communication. The extent of review in each category depends on the auditor's professional judgment. See FAM 670.21 through .22 for discussion on the types of communications.

Table 670.1: Overview of Review Performed for Each Type of Communication

Type of communication	Suggested level of review (FAM 670.10 through .11)
Communication expresses no assurance (FAM 670.22.a)	Low or none
Communication expresses negative assurance on compliance with GAGAS (FAM 670.22.b)	Moderate

The auditor generally should also consider the extent to which the IPA firm has completed its work when developing timing of procedures to perform. Prior to review by the auditor, the IPA firm should have performed at least one level of supervisory review for all audit work, with more material or sensitive areas having multiple levels of internal review.

.10 The auditor should reevaluate the audit strategy and plan as the work progresses. The auditor should base determination of the level of review on professional judgment, considering the following factors:

a. **The type of communication the auditor will issue.** More review will be necessary when the auditor issues a transmittal letter expressing negative assurance on the IPA firm's compliance with GAGAS than when no assurance is provided by the auditor (FAM 670.09 and.21 through .22).

b. **The IPA firm's independence and objectivity (both for the audit organization and its audit team).** The level of review increases as threats to independence and objectivity increase.

c. **The IPA firm's qualifications to perform the work (both for the audit organization and its audit team).** The level of review increases as the IPA firm's qualifications decrease.

d. **The auditor's prior experience with the IPA firm (both for its audit organization and its audit team).** The level of review tends to decrease as the auditor's confidence increases from working with the IPA firm.

e. **The significance of assertions, line items, accounts, or applications in relation to the financial statements on which the IPA firm is reporting, taken as a whole.** The level of review for these items increases as they become more significant or material.

f. **The risk of material misstatement, including the risk of material fraud, for the significant assertions, line items, accounts, or applications that the IPA firm is auditing.** The level of review increases as the risk of material misstatement increases.

.11 The extent of the auditor's review of the IPA firm's audit documentation is a matter of professional judgment and depends on the level of review based on the factors discussed in FAM 670.10.

a. For a **low level of review**, the auditor may limit the review of documentation to key summary planning and completion documentation. This includes the audit strategy and audit program (or equivalent documents), the audit completion checklist at FAM 1003 (or equivalent documentation), and the audit summary memorandum.

b. For a **moderate level of review**, the auditor generally should review more of the IPA firm's documentation, especially documents evidencing important decisions. For financial statement audits, this includes the LIRA form (or equivalent documentation) for significant accounts; the SCE worksheet (or equivalent documentation) for significant applications; the documentation for accounts, estimates, and judgments with high risk of material misstatement; the analytical procedures; and the summary of uncorrected misstatements (see FAM 595 C).

FAM 670 A illustrates the procedures that the auditor generally should perform for each level of review at the entity level and for each significant assertion, line item, account, or application, as well as what audit documentation the auditor should retain.

Staffing the Review of the IPA Firm's Audit Work

.12 The auditor's staff reviewing the audit work generally should have enough experience in financial statement auditing to understand the professional judgments that need to be made and to interact with the higher levels of the IPA firm. An assistant director or a senior manager who has significant experience in performing or reviewing financial statement audit work should supervise or perform most of the review. Less qualified staff members may perform reviews when supervised by more qualified auditors.

.13 When the IPA firm's work involves the review of IS controls, the auditor should ensure that the auditor's staff has the requisite IS knowledge to review the firm's work to determine whether IS controls were adequate, audit work was properly documented, and related audit objectives were achieved.

Evaluating the Audit Work of the IPA Firm

.14 The auditor should determine whether the work is sufficient and appropriate and whether the IPA firm's levels of internal review for the audit work were appropriate. In addition, the auditor should determine whether any significant issues related to the audit were identified or whether substantial deviations from GAGAS, if applicable, were identified but not documented and explained in the audit. The auditor should document this evaluation.

.15 Sometimes, IPA firms use methodologies or audit approaches that are different from those the auditor would have used. Auditing requires a great deal of professional judgment, and there are often alternative ways to achieve audit objectives. Many IPA firms have developed, at considerable expense, proprietary audit methodologies to use on a wide range of public and private sector clients. Many of these audit methodologies use electronic technology where all audit documentation exists only in electronic form. Thus, the auditor should understand the IPA firm's audit methodology and basis for the nature, timing, and extent of audit procedures. This may require obtaining permission to use proprietary software to review the audit documentation. Additionally, where the IPA firm's software is retained, the auditor should develop a process to maintain the operability of the software to access the audit documentation in the future. If the IPA firm's methodology differs from the FAM, the IPA firm should discuss the matter and obtain the IG's advance approval for alternative audit methodologies, in accordance with the terms of the contract.

The auditor should evaluate whether sufficient appropriate evidence has been obtained to meet the audit objectives,[9] particularly for significant assertions in line items with a high risk of material misstatement. If the auditor has concerns about whether the IPA firm's work provides sufficient appropriate evidence, the auditor generally should discuss the matter with the audit director and the reviewer before formally discussing the issue with the IPA firm. Sometimes, the auditor may disagree with the IPA firm's conclusions or judgments. In such a case, the auditor should evaluate the IPA firm's work as well as any other evidence or testing necessary to determine the appropriate conclusion.

.16 If the auditor determines that sufficient appropriate evidence has not been obtained, the auditor should discuss this with the engagement and second-level review partners and with appropriate contacts of a group auditor. For unresolved matters that are material to the financial statements or significantly impact the auditor's report, the IG should discuss these with management and consider how to communicate to those charged with governance the IG's concern about compliance with GAGAS. At a minimum, the auditor should include in the oversight files a description of the matter giving rise to the IG's concern about the audit evidence and its potential impact on the auditor's transmittal.

Documenting the Review of the IPA Firm's Audit Work

.17 There is a difference between the auditor's responsibilities to review the documentation of the IPA firm and what the auditor may copy and retain from

[9]Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of audit evidence, that is, its relevance and reliability supporting the conclusions on which the auditor's opinion is based. See AU-C 500.05.

that documentation. The auditor generally should review the items listed in FAM 670 A, Table 1.

.18 The auditor uses professional judgment in deciding which of the IPA firm's documents to copy and retain. Based on the type of transmittal or the level of review, the auditor's documentation generally should contain the items listed in FAM 670 A, Table 2, under "retain," either electronically or in hard copy. Many IPA firms use electronic technology to retain documentation for the entire audit. The auditor may cite this documentation as part of the review and print any documents as necessary.

.19 The auditor may retain other documentation reviewed if it might be useful in understanding the entity, training staff members, planning future audits, reviewing the documentation, or writing the transmittal letter. Documentation in this category may include the items listed in FAM 670 A, Table 2, under "optional." Auditors often find it helpful to keep copies of documents (either electronically or in hard copy) in case questions arise during review. However, the auditor may decide not to include those copies in the oversight documentation unless they are considered necessary to document the auditor review of the IPA work performed.

.20 The auditor should retain oversight documents in accordance with legal requirements, but not less than 5 years from the report release date, similar to the audit documentation retention requirements of the audit standards (AU-C 230.17). In documenting the review, the auditor may indicate the document number or index number that IPA firm used to locate the document at a later date.

Ownership and confidentiality of audit documentation are determined by contract and other legal requirements (see AU-C 230.A29). The auditor should consult legal counsel when determining ownership of audit documentation if questions arise.

Communicating the Results of the Audit Performed by the IPA Firm

.21 For an auditor providing oversight of an IPA firm's work, applying the guidance in FAM 670 or the oversight requirements of the IG Act and related guidance from Council of Inspectors General on Integrity and Efficiency applicable to IGs are not intended to and do not create an association for the auditor with the financial statements (see AU-C 200.03). The auditor must ensure that any communication with those charged with governance, management, or other interested parties about the results of the IPA firm's audit, or the auditor's oversight of the audit, does not create the appearance of the auditor having applied procedures sufficient to permit the auditor to express an opinion on the financial statements and conclusions on the effectiveness of internal control, whether the entity's financial management systems substantially complied with the three FFMIA requirements, or on compliance with applicable provisions of laws, regulations, contracts, or grant agreements; or on other matters. Consequently, communication about audit and oversight results must contain a disclaimer of an opinion and should not express concurrence with the IPA firm's opinion or other conclusions. These communications generally should be made in writing.

.22 While the auditors do not have an association with the financial statements, it is appropriate for them to transmit the IPA firm's report to the entity or other interested parties summarizing the results, providing appropriate context and disclaimers, and describing the auditor's oversight procedures and results. The considerations the auditor should address when deciding the type of written communication include

- the level of oversight conducted,
- resource requirements and cost-benefit considerations,
- the timing of oversight procedures, and
- legal requirements.

The auditor generally should decide the type of written communication when planning the engagement. Auditor decisions about the type and when it may communicate the results of auditor oversight of the IPA firm's work to management and those charged with governance generally should be discussed with the IPA firm during the planning stages of the audit. The auditor exercises professional judgment in making these decisions and should document the basis for the decisions. The type of communication will depend on legal requirements, as applicable, and the auditor's level of review (see FAM 670.09 through .11).

The auditor generally should issue communication in writing. There are two possible types of transmittal letters based on the auditor's oversight of the IPA firm's work: one expressing no assurance and one expressing negative assurance related to the IPA firm's compliance with GAGAS. Because the auditor did not perform the audit, the auditor should disclaim an opinion and should not express its concurrence with the IPA firm's opinion or other conclusions. The auditor may also expand the letter to highlight audit findings or information or to describe oversight procedures that the auditor performed. See examples in FAM 670 B for wording for the two types of transmittal letters.

a. **Express no assurance.** For this communication, the auditor issues a transmittal without reviewing the IPA firm's audit documentation. In these situations, the transmittal should be clear as to the limitations of the work of the auditor.[10]

b. **Express negative assurance on compliance with GAGAS.** This communication indicates that the auditor reviewed the IPA firm's report and related audit documentation, inquired of its representatives, and found no instances where the IPA firm did not comply, in all material respects, with GAGAS.

[10]If the IG contracts with an IPA firm, the contracting process generally will require the auditor to evaluate the IPA firm's independence, objectivity, and qualifications and to monitor its performance under the contract.

670 A – Summary of Procedures and Documentation for Oversight of Audits Performed by Contracted IPA Firms

.01 Table 1 presents a summary of procedures that the auditor generally should perform at the entity level and for significant assertions, line items, accounts, or applications when providing oversight of an audit performed by an IPA firm. As discussed in FAM 670.09, the two levels of review are moderate or low, as determined by the auditor's professional judgment.

Table 2 presents a summary of documentation that the auditor generally should retain from the auditor's review of the IPA firm's work. However, the summary does not include work to be done by the auditor to determine the IPA firm's independence, objectivity, and competence (see FAM 670.08 for a discussion of that work). Where the IPA firm uses equivalent documents, the auditor should review those documents.

In both tables, procedures to be performed and documents to be retained at the low or moderate levels of review are as indicated. For the moderate level, all procedures and documents at the lower level of review should also be performed and retained.

Table 1: Summary of Procedures for Providing Oversight of Audits Performed by Contracted IPA Firms

Procedures

At entity level

1. Communicate with the independent public accounting (IPA) firm
   - as to the objectives of the work *(low)*
   - through discussions of their procedures and results *(low)*
   - by attending key entrance and exit meetings *(moderate)*
2. Review the following:
   - audit strategy *(low)*
   - scope of work *(low)*
   - audit summary memorandum *(low)*
   - summary of uncorrected misstatements *(low)*
   - analytical procedures *(low)*
   - completion checklist *(low)*
   - determination of materiality and performance materiality *(low)*
   - representation letters *(low)*
   - information systems background *(moderate)*
   - general and application controls documentation *(moderate)*
3. Read the following:
   - financial statements and notes *(low)*
   - supplementary information *(low)*
   - Management's Discussion and Analysis and other accompanying information *(low)*
   - the IPA firm's audit reports *(low)*
   - management's response *(low)*

For significant assertions, line items, accounts, or applications

1. Review the following:
   - audit program *(low)*
   - conclusions about significant issues and their resolution (often in audit summary) *(low)*
   - formal written communications on findings (e.g., Notifications of Findings and Recommendations) *(low)*
   - line item risk analyses (LIRA) *(moderate)*
   - specific control evaluations (SCE) *(moderate)*
   - cycle memorandum *(moderate)*
   - flowcharts *(moderate)*
   - determination of tolerable misstatement *(moderate)*
   - sampling plan *(moderate)*
   - IPA firm's documentation evidencing significant IPA firm judgments and conclusions *(moderate)*
   - IPA firm's documentation of review of high-risk accounts and management's estimates and judgments *(moderate)*
   - analytical procedures *(moderate)*
   - evaluation of sample results *(moderate)*

Table 2: Summary of Documentation from Providing Oversight of Audits Performed by Contracted IPA Firms

DOCUMENTATION

Required

1. Auditor-prepared:

   - oversight plan *(low)*
   - results of review of documentation *(low)*
   - memorandum documenting entrance and exit conference *(moderate)*

2. Independent public accounting (IPA) firm prepared:

   At entity level:

   - IPA firm's reports, along with the entity's final financial statements, notes, and supplementary information *(low)*
   - management letter, if prepared *(low)*
   - IPA firm's uncorrected known and likely misstatements, consideration of risk of further misstatements, and comparison with materiality *(low)*
   - audit completion checklist *(low)*
   - IPA firm's audit summary memorandum *(low)*

   At significant assertion, line item, account, or application level:

   - IPA firm's conclusions about significant issues and their resolution (often in audit summary) *(low)*
   - IPA firm's documentation evidencing significant IPA firm judgments and conclusions *(moderate)*

Optional

1. IPA-firm prepared:

   - entity profile
   - audit program
   - representation letters
   - line item risk analyses (LIRAs)
   - specific control evaluations (SCEs)
   - sampling plans
   - trial balance
   - lead schedules
   - evaluation of sample results

670 B – Example Transmittal Letter When Providing Oversight of Audits Performed by Contracted IPA Firms

As discussed in FAM 670.22, there are two types of transmittal letters based on the auditor's oversight of the IPA firm's work: one expressing no assurance and one expressing negative assurance specifically related to the IPA firm's compliance with GAGAS. The example presents a transmittal letter in which an IG contracts with an IPA firm to perform an audit of financial statements and either expresses no assurance or expresses negative assurance specifically related to the IPA firm's compliance with GAGAS.

Example: Transmittal Letter for IGs Who Contract with an IPA Firm and Expresses No Assurance or Negative Assurance Related to the Firm's Compliance with GAGAS

To **[appropriate addressee]**

We contracted with the independent public accounting firm of **[IPA firm]** to audit the financial statements of **[entity]** as of and for the fiscal years ended **[September 30, 20XX, and 20XX]**, to provide an opinion **[or a report]** on internal control over financial reporting compliance with laws and other matters, and whether **[entity's]** financial management systems substantially complied[11] with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards, Office of Management and Budget audit guidance, and the GAO/CIGIE *Financial Audit Manual* **[if required by the contract]**.

In its audit of **[entity]**, **[IPA firm]** reported

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- **[entity]** had effective[12] internal control over financial reporting (including safeguarding assets) and compliance with laws and other matters;
- [**entity's**] financial management systems substantially complied[13] with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) (for Chief Financial Officers Act agencies); and
- no reportable noncompliance with provisions of laws tested or other matters.

[IPA firm] also described the following significant matters (if any):

- [Discuss any significant matters].

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

[11]If the IPA firm did not provide an opinion (i.e., did not give positive assurance) on whether the entity's systems substantially complied with the three FFMIA requirements, change this to "to report on whether [**entity's**] financial management systems did not substantially comply" (negative assurance).

[12]If the IPA firm did not provide an opinion on internal control over financial reporting, change this to "no material weaknesses in internal control over financial reporting" (and include a definition of material weakness in a footnote).

[13]If the IPA firm did not provide an opinion (i.e., did not give positive assurance) on whether the entity's systems substantially complied with the three FFMIA requirements, change this to "no instances in which **[entity's]** financial management systems did not substantially comply" (negative assurance).

[IPA firm] is responsible for the attached auditor's report dated **[date]** and the conclusions expressed therein. We do not express opinions on **[entity's]** financial statements or internal control over financial reporting, or on whether **[entity's]** financial management systems substantially complied with the three requirements of FFMIA, or conclusions on compliance and other matters.

[For transmittal letters expressing negative assurance specifically related to the IPA firm's compliance with GAGAS, use the following paragraph:]

In connection with the contract, we reviewed [**IPA firm's**] report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements 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 **[entity's]** financial statements or internal control over financial reporting,[14] or conclusions on whether **[entity's]** financial management systems substantially complied with the three FFMIA requirements,[15] or on compliance with laws and other matters. [**IPA firm**] is responsible for the attached auditor's report dated **[date]** and the conclusions expressed therein. However, our review disclosed no instances where [**IPA firm**] did not comply, in all material respects, with U.S. generally accepted government auditing standards.[16]

[14]If the IPA firm did not provide an opinion on internal control over financial reporting, change this to "conclusions about the effectiveness of internal control over financial reporting."

[15]If the IPA firm did not provide an opinion on FFMIA, change "opinion" to "conclusions."

[16]If the auditor found that the IPA firm did not comply with GAGAS, or if the auditor disagrees with the IPA firm's conclusions, see FAM 670.16.

SECTION 700

FFMIA Guidance and Agreed-Upon Procedures Guidance

Contents - FFMIA Guidance and Agreed-Upon Procedures Guidance

FFMIA Guidance and Agreed-Upon Procedures Guidance **FAM**

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701 – Determining Financial Management Systems' Compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA)

.02 FFMIA[17] was designed to lead to financial management systems improvements that would result in CFO Act agency managers routinely having access to timely, reliable, and useful information with which to make informed decisions and to provide accountability. FFMIA section 803(a) requires the 24 CFO Act agencies to implement and maintain financial management systems that comply substantially with

c. federal financial management systems requirements,

d. applicable federal accounting standards, and

e. the *U.S. Government Standard General Ledger* (SGL) at the transaction level.

.03 The law also requires the auditor to state in the CFO Act financial statement audit report whether the agency's financial management systems substantially comply with these three FFMIA requirements. This section provides guidance to help the auditor examine agency financial management systems' compliance with FFMIA.[18] It provides definitions, explains the FFMIA requirements, and discusses related guidance as well as audit issues related to testing for substantial compliance with the three requirements.[19] An example audit program is included in FAM 701 A.

FFMIA Definitions

.04 For purposes of FFMIA, see the following definitions:

f. Financial management systems include the financial systems and the financial portion of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to operating and maintaining system functions.

g. The term financial system includes an information system,[20] comprising one or more applications, that is used for

- collecting, processing, maintaining, transmitting, or reporting data about financial events;
- supporting financial planning or budgeting activities;
- accumulating and reporting costs information; or

[17]The FAM and OMB guidance address FFMIA as part of internal control.

[18]OMB's bulletin entitled Audit Requirements for Federal Financial Statements contains additional information regarding FFMIA audit requirements and is updated periodically. The current version of the OMB bulletin can be found at https://www.whitehouse.gov/omb/bulletins.

[19]Office of Management and Budget, "Compliance with the Federal Financial Management Improvement Act of 1996," app. D of *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123, provides guidance on the requirements of FFMIA. App. D can be found at https://www.whitehouse.gov/omb.

[20]The financial system consists of six functional areas: general ledger management, funds management, payment management, receivable management, cost management, and reporting.

- supporting the preparation of financial statements.

h. A mixed system is an information system that supports both financial and nonfinancial functions of the federal government or its components.[21]

FFMIA Requirements

.05 The first requirement is addressing federal financial management systems requirements. The Department of the Treasury (Treasury) develops and maintains, in coordination with OMB and federal agencies, the federal financial management system requirements.[22] In June 2017, Treasury published the revised Federal Financial Management System Requirements in its *Treasury Financial Manual* (TFM) volume I, part 6, chapter 9500, found at http://tfm.fiscal.treasury.gov/v1/p6/c950.html. The financial management system requirements apply to financial systems as well as administrative systems and programmatic systems that support financial management business outcomes (i.e., mixed systems).

.06 The second requirement is the financial management systems' use of applicable federal accounting standards, promulgated by FASAB. FASAB promulgates federal accounting standards after considering the financial and budgetary information needs of the Congress, executive agencies, and other users of federal financial information as well as comments from the public. FASAB standards are found at www.fasab.gov. FAM 560 describes the relationship of the FASAB standards to the hierarchy of U.S. generally accepted accounting principles (U.S. GAAP).

.07 The third requirement is implementing the SGL at the transaction level. The SGL provides a uniform chart of accounts and guidance for standardizing federal agency accounting and supports the preparation of standard external reports required by OMB and Treasury. Information on the SGL can be found at https://www.fiscal.treasury.gov/fsreports/ref/ussgl/ussgl_home.htm. The SGL is defined in the latest supplement, which is released annually in Treasury's TFM. The supplement is composed of the following major sections:

- chart of accounts,
- accounts and definitions,
- account transactions,
- account attributes for SGL proprietary account and budgetary account reporting,
- crosswalks to standard external reports and reclassified statements, and
- validations and edits for fiscal reporting.

[21]Mixed systems include payment and invoice systems, procurement systems, receivable systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, property management systems, travel systems, or other mission operational systems that provide financial information to a financial system.

[22]The initial set of federal financial management system requirements were a series of publications issued by the Joint Financial Management Improvement Program. This initial set of requirements was rescinded in 2010 when OMB assigned Treasury the responsibility of developing the revised set of financial management system requirements.

Auditor's FFMIA Reporting Requirements

.08 FFMIA requires the CFO Act agency financial statement auditor to report on whether the agency financial management systems substantially complied with the three FFMIA requirements.[23] The auditor who reports that agency financial management systems do not substantially comply with FFMIA requirements shall include the following in the report:

i. The entity or organization responsible for the financial management systems that have been found not to be substantially compliant and all pertinent facts relating to the noncompliance, including

- the nature and extent of the noncompliance, including areas in which there is substantial but not full compliance;
- the primary reason or cause of the noncompliance;
- the entity or organization responsible for the noncompliance; and
- any relevant comments from any responsible officer or employee.

j. A statement with respect to the recommended remedial actions and the time frames for implementing these actions.

OMB Guidance

.09 Appendix D to OMB Circular No. A-123 provides the FFMIA Compliance Determination Framework that CFO Act agencies should use (and the auditor may use) in determining whether the agency's financial management systems substantially comply with FFMIA requirements. Appendix D defines substantial compliance with FFMIA requirements as achieving the following multiple objectives.

k. Federal financial management system requirements objective: Requirements consists of three parts, each with its own objectives.

- Financial reporting objectives include reliable, timely, and accurate financial information for managing day-to-day operations and reporting on an agency's financial condition. Reliable financial reporting also includes maintaining internal control over financial reporting and financial management system security.
- Effective and efficient operations objectives include maintaining cost-effective financial operations and ensuring resources are safeguarded against waste, loss, and misuse.
- Compliance objectives ensure that financial transactions are consistent with laws, regulations, and policies.

l. The federal accounting standards objective: Agency financial management systems shall maintain accounting data to permit reporting in accordance with U.S. GAAP.

m. SGL at the transaction level objective: Agencies shall apply the requirements of SGL guidance in the TFM when recording financial events. Application of

[23]FFMIA also requires CFO Act agencies to determine whether their financial management systems substantially comply with the FFMIA requirements.

the SGL at the transaction level means that each time an agency records an approved transaction in its financial management system, the system will generate appropriate general ledger accounts for posting the transaction according to the rules defined in SGL guidance. According to Appendix D, an agency may record individual transactions in its financial system in detail or in summary as long as each transaction is traceable to the transaction source.

According to Appendix D, if an agency's (user organization) financial management system includes the use of a shared service organization, the auditor should obtain the service organization report (type 2 report). See FAM 640 for further guidance on audit considerations regarding service organizations and using related reports. The service organization report is an important tool for agency management and the auditor as they evaluate the effect of the controls at the service organization on the user entity's internal control over financial reporting. The auditor's testing of a service organization controls can take the form of input/output controls, performance monitoring, or process controls.

.10 In the financial statement audit bulletin, OMB also provides auditors the following additional guidance relevant to FFMIA.

n. A CFO Act agency's components, including government corporations, are subject to FFMIA. However, an auditor of separately issued component reports is not required to separately report on whether a component's financial management systems comply substantially with the FFMIA requirements.

o. Service organizations whose internal control over financial reporting have been suitably designed and implemented and are relevant to an audit must either provide their user organizations with a service organization report (type 2 report) or allow user auditors to perform appropriate tests of controls at the service organization.[24]

p. If an agency's financial management systems do not substantially comply with one or more of the three FFMIA requirements, the auditor's mandatory report on compliance (or an accompanying schedule that is referenced in the compliance report) should disclose with which of the three requirements the agency's systems did not substantially comply, group findings together based on the requirement to which they relate, and comply with the applicable FFMIA reporting requirements (see FAM 580.77).[25]

[24]According to the AICPA's *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* (AT-C 320), a type 2 report provides management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls.

[25]OMB's *Audit Requirements for Federal Financial Statements* states that if an audit disclosed no instances in which a reporting entity's systems did not comply substantially with all three requirements, a single statement to this effect is sufficient.

Audit Approach

.11 To meet FFMIA's reporting requirements, the auditor should plan and perform audit work in sufficient detail to enable them to determine the degree of an agency's financial management systems' compliance with the three requirements and whether that degree of compliance is substantial.

.12 FFMIA does not require systems to be in full compliance with each requirement, but rather in substantial compliance. If systems are not in substantial compliance, the auditor must report on all facts pertaining to the substantial compliance failure for each applicable requirement.

.13 The auditor should design and implement appropriate testing to apply the criteria in FFMIA. For example, in performing financial statement audits, the auditor generally should evaluate the capability of the financial management systems to process and summarize financial information that flows into agency financial statements. Under FFMIA, the auditor must assess and report on whether an agency's financial management systems substantially comply with the three requirements.

.14 As a result of the overlapping scope and nature of FFMIA assessments and financial statements audits, the auditor may use the audit work performed as part of the financial statement audit. In the example audit program at FAM 701 A for testing controls for compliance with FFMIA, several procedures indicate that the auditor may have performed the procedures as part of the financial statement audit. Other procedures needed to assess FFMIA compliance may require additional work not normally performed in financial statement audits.

.15 While the example audit procedures provide steps that the auditor may perform, the auditor may tailor the steps to satisfy the objectives or intent of the step. Because of the broad scope of federal operations and the many variations that can and do flow from such a broad scope, the degree of specificity in the example audit program varies. The auditor may use other work that addresses the objectives of the example audit procedures.

.16 As discussed in FAM 350, the auditor need not perform specific tests of the financial management systems' compliance with FFMIA requirements for agencies with long-standing, well-documented financial management systems weaknesses that severely affect the systems' ability to comply with FFMIA. The auditor may evaluate management's use of the FFMIA Compliance Determination Framework in appendix D to OMB Circular No. A-123 for determining whether an agency's systems substantially comply with FFMIA and report any deficiencies in management's process along with previously identified problems. The auditor may also use the goals and compliance indicators found in the framework to help determine FFMIA compliance.

.17 FAM 580.74 through .78 and FAM 595 A provide FFMIA reporting guidance for the auditor. FAM 580.47 through .48 provides guidance to the auditor on reporting for FMFIA. For FISMA considerations, the auditor should refer to FAM 260.74 through .76 and FAM 580.49.

701 A – Example Audit Procedures for Testing Systems for Compliance with FFMIA

Agency

Date of review

Job code

Objective: The Federal Financial Management Improvement Act of 1996 (FFMIA) requires the 24 agencies covered by the Chief Financial Officers (CFO) Act to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* at the transaction level. The objective of these audit procedures is to assess whether CFO Act agencies' financial management systems substantially comply with FFMIA requirements.

Procedure	Done by/date	Doc. ref.
I. Planning (may be combined with the work to plan the financial statement audit) A. To understand the requirements, read the following: • Federal Financial Management Improvement Act of 1996 (FFMIA), Pub. L. No. 104-208. • *Audit Requirements for Federal Financial Statements*, Office of Management and Budget (OMB) Bulletin.[26] • *Financial Reporting Requirements*, OMB Circular No. A-136. • "Compliance with Federal Financial Management Improvement Act of 1996," appendix D to OMB Circular No. A-123. • "Federal Financial Management System Requirements," chapter 9500 to *Treasury Financial Manual* (TFM), volume I, part 6. • Federal Accounting Standards Advisory Board standards. • *U.S. Government Standard General Ledger* (USSGL), TFM. • *Managing Federal Information as a Strategic Resource*, OMB Circular No. A-130. • Federal Information Security Modernization Act of		

[26]The audit bulletin is updated periodically, and the current version can be found on the OMB website at https://www.whitehouse.gov/omb/ bulletins.

Procedure	Done by/date	Doc. ref.
2014 (FISMA), Pub. L. No. 113-283.		
B. Read the prior year's audit documentation and audit report to identify (1) the auditors' FFMIA determinations, (2) reported instances of noncompliance with FFMIA, and (3) material weaknesses and significant deficiencies related to the agency's financial management systems. • Prepare a schedule of the previously identified deficiencies for follow-up (include reviewing management's corrective action). See FAM 701 B for an example of the schedule.		
C. Read the most recent FMFIA, FISMA,[27] inspector general, auditor, and GAO reports and internal control documentation from the financial statement audit or other reports related to financial management systems, such as financial systems, payment and invoice systems, procurement systems, receivable systems, loan systems, grants systems, payroll systems, budget formulation systems, billing systems, property management systems, and travel systems. • Evaluate the effect of any reported weaknesses on the FFMIA assessment. • Obtain an update on the status of the issues (include reviewing management's corrective action) and document problems identified in the schedule in FAM 701 B.		
D. If an agency uses a shared service solution for hosting any of its financial management systems, obtain and review the service organization report (type 1 or 2) for each service provider to identify any reported weaknesses that affect FFMIA compliance. 1. If weaknesses are reported, determine whether the agency has implemented additional controls to mitigate those weaknesses. 2. Evaluate the effectiveness of any additional controls and the effect of any reported weaknesses on the FFMIA assessment. 3. Obtain an update on the status of the issues (include reviewing management's corrective action) and document problems identified in the schedule in FAM 701 B.		

[27] FISMA requires the annual report on the effectiveness of information security policies and practices.

Procedure	Done by/date	Doc. ref.
E. Read the cycle memorandums or other equivalent narratives for each of the audit cycles completed for the current-year audit. Document issues (include reviewing management's corrective action) related to FFMIA compliance in the schedule in FAM 701 B.		
F. Obtain the agency's risk-based and evidence-based assessment conducted on its financial management systems against the FFMIA Compliance Determination Framework in appendix D to OMB Circular No. A-123, and all supporting documentation of financial systems and financial portions of mixed systems. Supporting documentation may include criteria for consideration of low, medium, and high risk and test work that the agency performed. 1. Determine whether the agency's assessment of its financial management systems provides a reasonable basis for determining compliance with the goals and compliance indicators as described in the FFMIA Compliance Determination Framework in OMB Circular No. A-123, appendix D. 2. Obtain background on agency management performing its assessment and determine whether management officials have reasonable expertise to perform the assessment on agency financial management systems. 3. Select a sample of management's assessments of individual financial management systems and determine if management's FFMIA assessment appears reasonable and is supported by the information using the FFMIA Compliance Determination Framework in appendix D. Document issues regarding the agency's assessment in the schedule in FAM 701 B.		
II Testing for compliance with federal financial management systems requirements A. Ask whether the agency has an agency-wide inventory of its financial management systems, including those operated or maintained by a shared service provider. If so, obtain the inventory and any supporting documentation. If not, consult with management to prepare/obtain an inventory of financial management systems and perform the following steps:		
1. From the agency's inventory of financial management systems, identify the financial systems and the financial		

Procedure	Done by/date	Doc. ref.
portion of mixed systems and note whether they are operated or maintained by a shared service provider. 2. Document the key internal controls and the information flows between the financial systems and the financial portion of mixed systems in a flowchart or narrative, including those operated or maintained by a shared service provider. (The auditor may perform this step as part of the internal control phase.) a. Determine whether the financial portions of mixed systems are integrated or interfaced with the financial system. Note: Financial portions of mixed systems that are integrated with the financial system share data tables. Therefore, the agency need not prepare reconciliations. b. If the financial portions of mixed systems interface with the financial systems, determine whether reconciliations are performed between the systems. If reconciliations are performed, determine how often and by whom, and assess the adequacy of the reconciliation, including follow-up activities and supervisory review. c. Through interviews with agency management and review of systems documentation, determine if the agency's systems have detective controls (e.g., batch control or hash totals or supervisory reviews) and preventive controls (e.g., segregated duties, appropriate authorizations, or access controls) to process transactions properly and timely. (The auditor may perform this step as part of the internal control phase.) 3. Document any issues regarding the agency's inventory, internal controls, and the flow of information between its financial management systems in the schedule in FAM 701 B.		
B. Determine whether the agency's financial management systems, as identified in step II.A above, conform to Treasury's *Federal Financial Management System Requirements* in the TFM. 1. Document whether the agency has assessed its financial systems and financial portions of mixed systems using Treasury's *Federal Financial Management System Requirements* in the TFM. • If agency management has not conducted an assessment against the TFM requirements, obtain		

Procedure	Done by/date	Doc. ref.
any analyses that agency management performed to support its FFMIA and FMFIA assessments that document how the agency's systems conform to the applicable TFM requirements. • Determine whether the agency's assessment is reasonable and is supported. 2. If management's results cannot be relied upon for each system, assess the agency financial management systems' compliance with *Federal Financial Management System Requirements* in the TFM. 3. Ask whether there have been significant changes in the agency's automated business processes. If so, determine whether the agency has assessed any new functionality in accordance with Treasury's *Federal Financial Management System Requirements* in the TFM. Document the results. 4. Document in FAM 701 B the instances in which, and the related effect of, the agency's financial management systems not substantially complying with *Federal Financial Management System Requirements* in the TFM.		
C. Determine if financial management system security risks are at an acceptable level. Coordinate with an information system (IS) controls specialist to determine if the agency has implemented and maintains a program to provide adequate security for all agency information that is collected, processed, transmitted, stored, or disseminated in financial management systems. 1. Have the IS controls specialist review the annual management testing and evaluation of the effectiveness of information security, policies, procedures, and practices in accordance with FISMA. 2. Document any unacceptable security risks and the related effect on the financial management systems identified by the IS controls specialist in the schedule shown in FAM 701 B.		
D. Determine if financial management systems include effective internal controls to (1) safeguard resources against waste, loss, and misuse, and whether reliable data are obtained, maintained, and disclosed in		

Procedure	Done by/date	Doc. ref.
system-generated reports, and (2) restrict federal obligations and outlays to those authorized by law and within the amount, time, and purpose available (i.e., Antideficiency Act). The auditor may obtain some of the information needed to make this determination from the work performed in the internal control phase. The auditor may identify other systems' internal control weaknesses from other audit reports reviewed and steps performed. Document the results in FAM 701 B.		
III. Testing for compliance with the federal accounting standards A. Determine if the agency's financial statements are compiled in accordance with applicable accounting standards by examining whether • any issues reported as part of the financial statement audit were related to agency implementation of accounting standards in its financial management systems, • the standards were not properly applied because of inadequate or improperly implemented manual procedures, or • the agency's financial management systems tracked financial events and summarized information to facilitate the preparation of auditable financial statements. From the deficiencies identified in performing step II and from tests conducted as part step I, determine whether the financial management systems record and summarize transactions in accordance with applicable accounting standards. Document the results in the schedule shown in FAM 701 B.		
B. Determine if the financial management systems enable the agency to prepare, execute, and report on its budget in accordance with the requirements of OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*. This determination can include work performed as part of the financial statement audit. Document the deficiencies and the related effect in the schedule shown in FAM 701 B.		
C. Determine if the financial management systems enable		

Procedure	Done by/date	Doc. ref.
the agency to prepare financial management information in accordance with the requirements of OMB Circular No. A-136, *Financial Reporting Requirements*, and align with agency strategic goals and performance information. Document the deficiencies and the related effect in the schedule shown in FAM 701 B.		
IV. Testing for compliance with the SGL A. Determine whether the agency financial management systems use financial data that can be traced directly to SGL accounts to produce reports providing financial information for both internal and external reporting. 1. Ask agency management and, based on the documentation prepared in step II.A, determine how financial transaction data are summarized from the financial portion of mixed systems to the financial systems.		
2. Compare the agency's chart of accounts to the SGL accounts and identify any deviations.		
3. Review all of the standard entries allowed by the financial systems to determine if these entries conform to the SGL posting rules.		
4. Document any deficiencies and the related effect in the schedule shown in FAM 701 B.		
B. Ask whether the agency uses a crosswalk from its chart of accounts for its financial system to the SGL. If so, perform tests to determine the accuracy of the crosswalk. 1. Trace all SGL accounts to the crosswalk.		
2. Identify any SGL accounts that are not included in the crosswalk. Identify any agency accounts not associated with an SGL account in the crosswalk.		
3. Compare the posting rules used by the system to those included in the SGL to determine whether the system posting rules conform to the SGL.		
4. Document deficiencies and the related effect in the		

Procedure	Done by/date	Doc. ref.
schedule shown in FAM 701 B.		
C. From the deficiencies identified in performing step II and from tests conducted as part step I, determine whether the financial management systems record and summarize transactions in accordance with the SGL at the transaction level. Document the results in the schedule shown in FAM 701 B.		
V. Summary A. Summarize the results of the work performed above and assess the agency's compliance with FFMIA requirements. 1. Finalize the schedule of the FFMIA noncompliance identified in the schedule prepared in FAM 701 B.		
2. Read the agency's management representation letter and Management's Discussion and Analysis covering the year under audit to obtain agency management's FFMIA determination.		
3. Document the entity or organization responsible for the financial management systems that have been found not to comply substantially with FFMIA requirements. a. Document facts pertaining to the i. nature and extent of the noncompliance and areas where there is substantial but not full compliance, ii. primary reason or cause of the noncompliance, iii. effect of the noncompliance, and iv. relevant comments from any responsible officer or employee. b. Assess the recommended remedial actions for each instance of noncompliance and management's time frames for implementing these actions. Include this assessment in the schedule in FAM 701 B.		
4. After reviewing the nature and extent of deficiencies identified, conclude whether the systems deficiencies identified constitute lack of substantial compliance with FFMIA requirements.		
5. Prepare the FFMIA section of the audit report. See FAM		

Procedure	Done by/date	Doc. ref.
580.74 through.78 and FAM 595 A, as appropriate.		

701 B – Summary Schedule of Instances of Financial Management Systems Noncompliance with FFMIA

- Source of information used in identifying deficiencies in entity systems
- Nature and extent of systems' noncompliance
- Substantial but not full compliance? (Y or N)
- Applicable criteria (OMB Circular No. A-123, app. D citation)
- Responsible entity
- Primary reason for or cause of systems' noncompliance
- Effect of systems' noncompliance
- Agency comments on systems' noncompliance
- Corrective action in remediation plan? (Y or N)
- Assessment of corrective actions, time frames
- Doc. reference
- Comments

1. Prior year's reported instances of noncompliance (step I.B)
2. Prior year's material weaknesses and significant deficiencies that affect FFMIA determination (step I.B)
3. Weaknesses in the agency's most recent FMFIA or FISMA report that affect FFMIA determination (step I.C)
4. Deficiencies identified in recent inspector general, auditor, and GAO reports that affect FFMIA determination (step I.C)
5. Deficiencies identified in service organization reports (step I.D)
6. Cycle memorandums for the current year's audit (step I.E)
7. Agency's assessment using OMB Circular No. A-123, app. D (step I.F)
8. Inventory of financial management systems, internal controls, and flow of information (step II.A)
9. Financial management systems conform to systems requirements in the TFM (step II.B)
10. Implementation and maintenance of an information security program (step II.C)
11. Internal controls as part of financial management to prevent waste, loss, misuse, and Anti-deficiency Act violations (step II.D)
12. Preparation of auditable financial statements in accordance with applicable accounting standards (step III.A)
13. Preparation, execution, and reporting on agency budget in accordance with OMB Circular No. A-11 (step III.B)
14. Preparation of financial statements in accordance with OMB Circular No. A-136 (step III.C)
15. Agency financial management systems' implementation of the SGL accounts (step IV.A)
16. Agency use of a crosswalk from its financial system to the SGL (step IV.B)
17. Agency financial management systems recording and summarizing transactions in accordance with SGL (step IV.C)

710 – Agreed-Upon Procedures

.18 In an engagement to apply agreed-upon procedures, the auditor performs specific procedures on a subject matter and reports on the results to assist the specified parties (the intended user) in evaluating a subject matter or an assertion. Agreed-upon procedures should be performed in accordance with GAGAS which incorporate the financial audit and attestation standards established by the AICPA. Statement on Standards for Attestation Engagements No 18 restructures the attestation standards so that the applicability of any AT-C section to a particular engagement depends on the level of service provided and the subject matter of the engagement. AT-C 105, *Concepts Common to All Attestation Engagements*, applies to all attestation engagements. AT-C 205, *Examination Engagements*; 210, *Review Engagements*; and 215, *Agreed-Upon Procedures Engagements*, each contain incremental performance and reporting requirements and application guidance specific to the level of service provided.

.19 The auditor may perform an agreed-upon procedures engagement on a variety of subject matters. The engagement will vary depending on the needs of the specified party. Examples of agreed-upon procedures include

- compare payroll information reported to the Office of Personnel Management with the entity's payroll records and general ledger (refer to OMB audit guidance for additional information);
- compare entity reconciliations of intragovernmental activity and balances with supporting documentation and compare amounts with the financial statements and with reports to Treasury (refer to OMB audit guidance for additional information);
- trace tax collections from the master file to deposit confirmations and 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;
- examine official receipt documents to determine whether they were included in the weekly deposit, and compare deposit amounts to amounts reported on the statement of funding; and
- inspect vendor invoices and related payment documentation to determine whether payment was made within 30 days.

.20 Parties involved in agreed-upon procedures engagements include:

(1) the engaging party(ies), which is the party(ies) that engages the practitioner to perform the attestation engagement,

(2) the responsible party(ies), which is the party(ies) responsible for the subject matter. If the nature of the subject matter is such that no such party exists, a party who has a reasonable basis for making a written assertion about the subject matter may be deemed to be the responsible party, (which can be the same as the specified party),

(3) the specified party, which is the intended user(s) to whom use of the written practitioner's report is limited (which can be the same as the engaging party), , and

(4) the auditor.

All parties should clearly understand the procedures to be applied. The nature, extent, and timing of agreed-upon procedures depend upon the needs of the specified party. As they best understand their own needs, the specified parties, and not the auditor, assume responsibility for the sufficiency of the design and extent of the procedures, although the auditor may assist the specified parties in designing the procedures.

.21 The auditor should establish an understanding with the engaging party regarding the nature, extent, and timing of agreed-upon procedures to be performed (AT-C 215.17). The auditor should document this understanding in detail in an engagement letter or other written document addressed to the engaging party (AT-C 215.12 and .13), an example of which is provided in FAM 710 A. This document should also include the following:

q. The nature of the engagement

r. Identification of the subject matter or assertion, the responsible party, and the criteria to be used

s. Identification of specified parties

t. Acknowledgment by the specified party of its responsibility for the sufficiency of the procedures

u. The responsibilities of the auditor

v. A statement that the engagement will be conducted in accordance with attestation standards established by the AICPA

w. Agreement on procedures by enumerating (or referring to) the procedures

x. Disclaimers expected to be included in the auditor’s report

y. Use restrictions

z. Assistance to be provided to the auditor

aa. Involvement of an auditor’s external specialist and the nature of such assistance, if applicable

bb. Agreed-upon materiality limits specified by the specified party, if applicable (AT-C 215.14)

cc. If the engaging party is not the responsible party, and the auditor is aware that the responsible party refuses to provide the auditor with the written assertion described in paragraph .10, an engagement letter that makes clear that no such assertion will be provided to the auditor (AT-C 215.16)

.22 The agreed-upon procedures to be enumerated or referred to in the auditor’s report should be performed entirely by the engagement team or other independent practitioners (AT-C 215.23).

.23 The auditor should perform agreed-upon procedures only if the subject matter is capable of evaluation against criteria that are suitable and available to the

specified party. Suitable criteria are objective, measurable, complete, and relevant. The auditor should perform procedures that are subject to reasonably consistent measurement and that the specified parties have agreed upon. The auditor should not perform overly subjective procedures or use terms with uncertain meaning unless they are defined in the agreed-upon procedures report (AT-C 215.19).

.24 The auditor should obtain evidence from applying the agreed-upon procedures to provide a reasonable basis for the findings expressed in the auditor's report. The auditor is not required to perform additional procedures beyond those agreed upon (AT-C 215.20). 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 (AT-C 215.41). For example, if during the course of applying agreed-upon procedures regarding an entity's operations, 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 (AT-C 215.A45). The auditor may do this by mentioning the material weakness with a footnote reference to another report where it is described in detail.

.25 The auditor should communicate to the responsible party any known or suspected fraud and noncompliance with laws and regulations. When the engaging party is not the responsible party, the auditor should also communicate this information to the engaging party (AT-C 215.42).

.26 When circumstances impose restrictions on the performance of the agreed-upon procedures, the auditor should attempt to obtain agreement from the specified parties to modify the agreed-upon procedures. If an agreement cannot be obtained, the auditor should describe restrictions in the report or withdraw from the engagement (AT-C 215.37).

Written Representations

.27 The auditor should request written representations from the responsible party in the form of a letter addressed to the auditor. The representations should

dd. include the responsible party's assertion about the subject matter based on the criteria;

ee. state that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the auditor, including communications received between the end of the period addressed in the written assertion and the date of the auditor's report;

ff. acknowledge responsibility for

i. the subject matter and the assertion,

ii. selecting the criteria, when applicable, and

iii. determining that such criteria are appropriate for the responsible party's purposes;

gg. state that the responsible party has provided the auditor with access to all records relevant to the subject matter and the agreed-upon procedures;

hh. state that the responsible party has disclosed to the auditor other matters as the auditor deems appropriate (AT-C 215.28); and

ii. be as of the date of the auditor's report and address the subject matter and periods covered by the auditor's findings (AT-C 215.30).

FAM 710 B provides an example of a responsible party's representation letter for an agreed-upon procedures engagement.

.28 When the engaging party is not the responsible party, the auditor should also request written representations from the engaging party in the form of a letter to the auditor. The representations should

jj. acknowledge that the responsible party is responsible for the subject matter and assertion;

kk. acknowledge the engaging party's responsibility for selecting the criteria, when applicable;

ll. acknowledge the engaging party's responsibility for determining that such criteria are appropriate for its purposes;

mm. state that the engaging party is not aware of any material misstatements in the subject matter or assertion;

nn. state that the engaging party has disclosed to the auditor all known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion;

oo. address other matters as the auditor deems appropriate (AT-C 215.29); and

pp. be as of the date of the auditor's report and address the subject matter and periods covered by the auditor's results (AT-C 215.30).

FAM 710 C provides an example of an engaging party's representation letter for an agreed-upon procedures engagement.

.29 When the engaging party is the responsible party and one or more of the requested written representations are not provided, or the auditor concludes either that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations or that the written representations are otherwise not reliable, the auditor should

qq. discuss the matter with the appropriate party(ies);

rr. reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect, if any, on the engagement; and

ss. if any of the matters are not resolved to the auditor's satisfaction, take appropriate action (AT-C 215.31).

.30 When the engaging party is not the responsible party,

tt. if one or more of the requested representations in paragraph .10 are not provided in writing by the responsible party, the auditor should seek oral responses to the same;

uu. if one or more of the requested representations in paragraph .10 are not provided in writing or orally by the responsible party, the auditor should take appropriate action (AT-C 215.32); and

vv. if the responsible party refuses to provide a written assertion about the subject matter based on the criteria as described in paragraph .10, the engagement letter should make clear that no such assertion will be provided to the auditor (AT-C 215.16).

Documentation

.31 The auditor should prepare engagement documentation that is sufficient to determine the following:

ww. The specified party's agreement on the procedures.

xx. The nature, timing, and extent of the procedures performed to comply with relevant AT-C sections and applicable legal and regulatory requirements, including

i. the identifying characteristics of the specific items or matters tested;

ii. who performed the engagement work and the date such work was completed;

iii. when the engaging party is the responsible party and the responsible party will not provide one or more of the requested written representations or the auditor concludes either that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations or that the written representations are otherwise not reliable, the matters in paragraph .12;

iv. when the engaging party is not the responsible party and the responsible party will not provide the written representations regarding the matters in paragraph .10, the oral responses from the responsible party to the practitioner's inquiries regarding the matters in paragraph .10, in accordance with paragraph .13; and

v. who reviewed the engagement work performed and the date and extent of such review.

yy. The results of the procedures performed and the evidence obtained (AT-C 215.43).

.32 The auditor should document sufficient information to enable an experienced auditor having no previous connection with the engagement to ascertain from the documentation the nature, extent, timing, and results of procedures performed and the evidence that supports the auditor's agreed-upon procedures report, including its sources.

.33 Although the quantity, type, and content of documentation varies with the circumstances, the auditor should document sufficient information to demonstrate that the work was adequately planned and supervised and that the evidence provides a reasonable basis for the report as discussed in GAGAS.

.34 The auditor generally should prepare a summary memorandum that recaps the work performed; refers to the detailed documentation; and includes the auditor's

conclusion on whether the work was performed in accordance with GAGAS, the attestation standards, and the FAM and whether the report is appropriate. FAM 710 E provides an agreed-upon procedures engagement completion checklist.

Reporting

.35 The auditor should report on the agreed-upon procedures, in writing, in the form of procedures and findings (AT-C 215.33 and .34). The auditor should not provide any opinion, negative assurance, or conclusion about whether the subject matter or the assertion is fairly stated based on the criteria. (AT-C 215.25).

.36 The auditor's agreed-upon procedures report should include the following:

zz. A title that includes the word *independent*.

aaa. An appropriate addressee as required by the circumstances of the engagement.

bbb. Identification of the subject matter or assertion and the nature of an agreed-upon procedures engagement.

ccc. Identification of the specified party.

ddd. A statement that the procedures performed were those agreed upon by the specified parties identified in the report, as shown in the example report in FAM 710 D.

eee. A statement that identifies the responsible party and its responsibility for the subject matter or its assertion.

fff. A statement that

- the sufficiency of the procedures is solely the responsibility of the parties specified in the report and
- the auditor makes no representation regarding the sufficiency of the procedures either for the purpose for which the report has been requested or for any other purpose.

ggg. A list of the procedures performed (or reference thereto) and related findings. (The auditor should not provide a conclusion.)

hhh. When applicable, a description of any agreed-upon materiality limits.

iii. A statement that

i. the agreed-upon procedures engagement was conducted in accordance with U.S generally accepted government auditing standards, which incorporate attestation standards established by the American Institute of Certified Public Accountants;

ii. the auditor was not engaged to and did not conduct an examination or review, the objective of which would be to express an opinion or conclusion, respectively, on the subject matter;

iii. the auditor does not express such an opinion or conclusion; and

iv. had the auditor performed additional procedures, other matters might have come to the auditor's attention that would have been reported.

jjj. When applicable, a description of the nature of the assistance provided by an auditor's external specialist.

kkk. When applicable, reservations or restrictions concerning procedures or results.

lll. An alert that restricts the use of the report. The alert should (this alert requirement is used rather than AT-C 215.35m):

i. a description of the purpose of the report, and

ii. a statement that the report is not suitable for any other purpose.

mmm. The manual or printed signature of the auditor, followed by the name of the audit entity and/or the city and state in which the auditor practices.

nnn. The date of the report. The report should be dated no earlier than the date on which the auditor completed the procedures and determined the results, including that

- the attestation documentation has been reviewed;
- if applicable, the written presentation of the subject matter has been prepared; and
- the responsible party has provided a written assertion, unless the responsible party refuses to provide an assertion (AT-C 215.35).

.37 The auditor should report all findings arising from application of the agreed-upon procedures. The concept of materiality does not apply to results reported in an agreed-upon procedures engagement unless the users of the report agree to the definition of materiality (AT-C 215.26 and .A28).

.38 Although use of the report is limited to the specified party for its specified purpose(s), governmental reports are generally a matter of public record. Therefore, generally the distribution of the report is not limited, and the audit organization may provide copies upon request. However, there may be contractual, legal, or other restrictions that may limit distribution.

.39 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 refer to the audit report and the departure from the standard report in the agreed-upon procedures report.

.40 The auditor also may include explanatory language about matters such 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; and

- explanation of sampling risk (for example, "Based on our sample, we are 95 percent confident that the population deviation not more than 15 percent.") .

.41 The auditor should state the findings in definitive, rather than qualified, language and avoid vague or ambiguous language (AT-C 215.27). The following table provides examples of appropriate and inappropriate descriptions of findings and results.

Table: Examples of appropriate/inappropriate description of findings and results for agreed-upon procedures

Agreed-upon procedures	Description of findings and results	
	Appropriate	**Inappropriate**
Based on the total tax liability, select and recompute the 50 largest excise tax returns from the quarter ended September 30, 20XX, and compare these amounts with those in 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 general ledger postings of revenue receipts for the year; compare with supporting documentation to determine whether reported revenue receipts were properly recorded as to amount and classification.	Revenue receipts selected randomly from the year's general ledger postings were properly classified and in agreement with supporting documentation.	The revenue receipts approximated the amount indicated by supporting documentation.
Examine personnel files of 40 individuals randomly selected from the timekeeping records for the year; determine whether the selected files contain a current and approved Notification of Personnel Action (Standard Form 50).	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 *(list and identify exceptions)*.	Some of the personnel files did not contain a current and approved Notification of Personnel Action.

FAM 710 D provides an example of an agreed-upon procedures report.

Other Report Issues

.42 If the audit organization's procedure is to date reports with the issue date, the auditor may state the date of completion of the engagement in the report, such as "We completed the agreed-upon procedures on [date]."

.43 The auditor should obtain report comments from the party responsible for the subject matter. These comments can be either written or oral. If oral comments are obtained, the auditor should document them in a memorandum.

.44 If the responsible party refuses to provide the auditor with a written assertion, the auditor should disclose this in the auditor's report (AT-C 215.36).

710 A – Example Agreed-Upon Procedures Engagement Letter

[Date]

Management of ABC Federal Entity

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

Dear Management Official:

This letter responds to your letter of **[date]** requesting that we assist ABC Federal Entity in determining the completeness and accuracy of receipts transferred to the ABC tax trust fund by XYZ Entity. On **[date]**, we met with you to discuss the scope and timing of our work. The detailed procedures we agree to perform are enclosed. We plan to perform these procedures on **[provide date(s)]**.

This letter documents our agreement to perform these agreed-upon procedures related to fiscal year 20XX. We will perform these procedures in accordance with U.S. generally accepted government auditing standards, which incorporate the attestation standards established by the American Institute of Certified Public Accountants. The procedures are included in the enclosures to this letter.

We will provide XYZ Entity with a draft copy of our report for its review and comment and plan to issue the report by **[date]**. We will meet with you as needed to discuss the agreed-upon procedures, results, and other issues that may arise.

The sufficiency of the agreed-upon procedures to meet the objectives of ABC Federal Entity is solely your responsibility. Accordingly, we make no representation regarding their sufficiency to meet your needs or for any other purpose. In addition, because of the nature of agreed-upon procedures, the results we obtain will only be applicable to the period for which they are performed. We are not engaged to perform, and will not perform, an examination or audit, the objective of which would be to express an opinion on the amount of receipts transferred to the tax trust fund for fiscal year 20XX. Accordingly, we will not express such an opinion. If we were to perform an examination or audit, other matters beyond the scope of the agreed-upon procedures might come to our attention.

The report we will prepare is intended solely for your information and use and is not intended to be, and should not be, used by any other party. However, our report will be a matter of public record and will be provided to others upon request. Unless we hear from you, we will assume that you concur with these procedures and their sufficiency for your purposes.[28] If you have any questions, please contact me at **[telephone number and e-mail address]** or **[alternative contact]** at **[telephone number and e-mail address]**.

Sincerely yours,

[Signed]

[Name of Director]
[Title]
[Audit Entity]

Enclosure

cc: XYZ Entity

[28]The auditor may request that the users document their agreement with the procedures and their sufficiency for their purposes by signing the engagement letter and returning it to the auditor.

710 B – Example Representation Letter from Responsible Party on Agreed-Upon Procedures Engagement

[XYZ Entity letterhead]

[Date (as of the date of the auditor's report)]

Dear Auditor:

In connection with the agreed-upon procedures engagement for XYZ's budget execution process for the period from October 1, 20XX, through September 30, 20XX, 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.
- 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, 20XX, through September 30, 20XX.
- XYZ's budget execution process is designed to meet the requirements of the Antideficiency Act.
- XYZ's employees check the accounting records and fund status reports quarterly to determine whether all source documents that affect the appropriation and fund balance have been recorded properly, accurately, and timely.
- XYZ's accounting system provides timely disclosure of total valid obligations incurred to date and total budgetary resources available for obligation 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.
- We are not aware of instances of 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.
- We have disclosed to you all known events subsequent to the period of the subject matter being reported on that would have a material effect on the subject matter or assertion.

Sincerely yours,

[signed]

[Official's Name]
[Official's Title]
XYZ Entity

710 C – Example Representation Letter from Engaging Party on Agreed-Upon Procedures Engagement

[XYZ Entity letterhead]

[Date (as of the date of the auditor's report)]

Dear Auditor:

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

- We acknowledge that ABC Entity is responsible for the budget execution process covered by these procedures and for the assertion.
- We acknowledge that we are responsible for selecting the criteria [state criteria] and for determining the appropriateness of the criteria for our purposes.
- We are not aware of any material misstatement regarding ABC Entity's budget execution process or its assertion.
- We have disclosed to you all known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion.

Sincerely yours,

[signed]

[Official's name]
[Official's title]
XYZ Entity

710 D – Example Agreed-Upon Procedures Report Where the Engaging Party Is the Not Responsible Party

[Date]

Management of ABC Entity

Subject: Independent Auditor's Report on Applying Agreed-Upon Procedures: Count of Cash and Related Items of XYZ Entity

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 the cash and cash-related items of XYZ Entity as of September 30, 20XX. XYZ Entity management is responsible for the count of its cash and cash-related items as of September 30, 20XX. ABC Entity is solely responsible for the sufficiency of these procedures for its purposes. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

We conducted the engagement in accordance with U.S generally accepted government auditing standards, which incorporate attestation standards established by the American Institute of Certified Public Accountants. 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 describes the agreed-upon procedures and our results.

We were not engaged to perform, and did not perform, an examination or review, the objective of which would have been to express an opinion or conclusion, respectively, on the amount of cash on hand. Accordingly, we do not express such an opinion or conclusion. 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 XYZ Entity representatives for review and comment. They agreed with the results presented in this letter and its enclosure.

The purpose of this report is solely to describe agreed-upon procedures related to an independent count of the cash and cash-related items of XYZ Entity as of September 30, 20XX and the report is not suitable for any other purpose. However, this report is a matter of public record, and its distribution is not limited. The report is available at no charge at **[website]**.

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

Sincerely yours,

[Signed]

[Name of Director], Director
[Audit Entity]

Enclosure

cc: XYZ Entity

Enclosure

Results of Cash Counts

Procedures

We counted and totaled cash on hand for the petty cash fund of XYZ Entity as of September 30, 20XX. 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 of $500.

Results

We counted cash totaling $258.96 and scheduled 14 receipts totaling $174.85, which accounted for $433.81 of the $500 in authorized petty cash funds. In addition, the XYZ Entity 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. There remains an unexplained difference (shortage) of $1.10 between the authorized amount and the total cash and receipts evidencing petty cash fund disbursements.

710 E – Agreed-Upon Procedures Engagement Completion Checklist

Responsible party: _____

Job code: _____

Principal report: _____

.45 This checklist is intended to help the auditor comply with the standards for agreed-upon procedures engagements. No signatures are required on the checklist in the planning phase.

.02 Several of the last questions include steps in GAO's quality control process, GAO Audit Documentation Set, and second partner review and reading of the report 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. Inspector general auditors and other auditors may use these questions and forms or may substitute questions and forms that consider their reporting style and quality control.

Steps	Yes, no, or N/A	Doc. Ref.
3. Has the audit team documented an understanding with the individuals requesting the agreed-upon procedures in an engagement letter?		
4. Were appropriate engagement acceptance and risk designation procedures followed?		
5. Does the engagement letter cover the following? • Independence of professionals working on the engagement. • The nature of the engagement. • Identification of the subject matter, the responsible entity, and the criteria. • Identification of the users of the report. • Auditor's responsibilities. • Reference to GAGAS and the attestation standards. • Agreement on the nature, extent, and timing, of procedures. • Anticipated reporting. • Involvement of an auditor's external specialist, if applicable. • Materiality limits, if applicable.		

Steps	Yes, no, or N/A	Doc. Ref.
6. Was an entrance conference held with the responsible entity?		
7. Did the auditor receive written representations from the responsible party as of the date of the auditor's report as required by AT-C 215.28 and .30, and did they address the subject matter and periods covered by the auditor's findings and results?		
8. Did the auditor receive written representations from the engaging party as of the date of the auditor's report as required by AT-C 215.29 and .30, and did they address the subject matter and periods covered by the auditor's findings and results?		
9. If applicable to the procedures, were laws and regulations documented?		
10. Does the documentation contain the following? • 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 significant findings that directly relate to the agreed-upon procedures engagement. • 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. • Descriptions of transactions and records examined. • A description of the work performed to support reported results. • Who performed the engagement work and the date such work was completed. • Evidence of supervisory review.		
11. Does the documentation assert that the applicable standards were followed?		
12. Does the documentation provide a reasonable basis for the results of the agreed-upon procedures?		
13. Does the summary memorandum appropriately summarize the results of the procedures and refer to the documentation?		
14. Did the auditor document any deviations from the standards? Did the director approve the related documentation with copies to the reviewer?		

Steps	Yes, no, or N/A	Doc. Ref.
15. Was an exit conference held with the responsible entity?		
16. Was the report referenced to supporting documentation?		
17. Did the assistant director review the following? • Documentation of the understanding with the individuals requesting the procedures and officials of the entity. • Memorandum of entrance conference with the responsible entity. • Completed work plans and procedures. • Memorandums on key engagement issues. • Summary of the results of the procedures. • Memorandum of exit conference with the responsible entity. • Deviations from standard reporting language. • Financial schedules/statements, if applicable. • Management representation letter. • Agreed-upon procedures report. • GAO Audit Documentation Set or equivalent.		
18. Did the audit director review the following? • Documentation of the understanding with the individuals requesting the procedures and officials of the entity. • Summary of results of the procedures. • Memorandum of exit conference with responsible entity. • Deviations from standard reporting language. • Agreed-upon procedures report. • Financial schedules/statements, if applicable. • Management representation letter.		
19. Did the assistant director or the auditor-in-charge determine that all significant review notes were resolved appropriately?		
20. Is the report appropriate as to the following? • Wording. • Scope of work. • GAGAS.		

Steps	Yes, no, or N/A	Doc. Ref.
• Explanatory paragraphs.		
21. Is the agreed-upon procedures report dated appropriately, or does the report indicate when the auditor completed the engagement?		

Note: The auditor should discuss all "No" answers in attached documentation. If the reason that a question is "N/A" is not obvious, the auditor should document the reason on the checklist or in an attachment.

Date of completion of the engagement _____

Auditor-in-Charge _____ Date _____

Assistant Director _____ Date _____

Audit Director _____ Date _____

SECOND PARTNER'S (OR EQUIVALENT) REVIEW OF

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 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**

TECHNICAL ACCOUNTING AND AUDITING EXPERT'S

READING OF AGREED-UPON PROCEDURES REPORT

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 to determine whether the procedures were performed in accordance with GAGAS, which incorporate financial audit and attestation standards established by the AICPA, and whether the report meets professional standards and audit organization policies.

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.

_____

Title **Signature** **Date**

SECTION 800
Compliance

Contents – Compliance

Compliance **FAM**

- General Compliance Checklist 802
- Antideficiency Act (ADA), as provided primarily in Chapters 13 and 15 of Title 31, U.S. Code 803
- Federal Credit Reform Act (FCRA), as provided in Sections 661 through 661f of Title 2, U.S. Code 804
- Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37 805
- Prompt Payment Act (PPA), as provided in 31 U.S.C. Chapter 39 806
- Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51 through 59 of Title 5, U.S. Code 807
- Civil Service Retirement Act (CSRA), as provided in 5 U.S.C. Chapter 83 808
- Federal Employees Health Benefits Act (FEHBA), as provided in 5 U.S.C. Chapter 89 809
- Federal Employees' Compensation Act (FECA), as provided in 5 U.S.C. Chapter 81 810
- Federal Employees' Retirement System Act (FERSA), as provided in 5 U.S.C. Chapter 84 811

802 – General Compliance Checklist

.46 The compliance testing section consists of the General Compliance Checklist in FAM 802 (questionnaire) for identifying laws and regulations for compliance testing (see FAM 245, *Identify Significant Provisions of Laws, Regulations, Contracts, and Grant Agreements,* and FAM 295 H, *List of General Laws)*. This checklist assists the auditor with the requirement in FAM 245.03 to identify the provisions in laws and regulations that have a direct effect on determining material amounts and disclosures in the financial statements and to thereby comply with GAGAS and AU-C 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*. The checklist does so by including frequently encountered laws that apply to many federal entities and also a section that identifies other laws and regulations based on a particular federal entity's legal and regulatory framework. The compliance supplements, which are found in FAM sections 803-811, provide detailed guidance for assessing the effectiveness of compliance controls and testing compliance with the significant provisions of frequently encountered laws. The General Compliance Checklist does not include guidance related to contracts and grant agreements, which are discussed in FAM 245.

.47 The auditor should complete the General Compliance Checklist (Form 802), or its equivalent, for federal financial statement audits. The auditor should decide if a frequently encountered law is significant for purposes of compliance testing. The auditor should complete compliance supplements (or equivalent) only for laws identified for compliance testing on the General Compliance Checklist (FAM 802.07). Use of these documents is described below.

.48 To understand and evaluate compliance controls, the auditor also should follow the guidance in FAM 260, *Identify Risk Factors,* on identifying risk factors and in FAM 320, *Understand Information Systems,* on understanding information systems. The FAM also provides additional guidance on compliance considerations for all audit phases.

Instructions for General Compliance Checklist

.49 The checklist contains a summary for each frequently encountered law. The auditor should use this checklist or its equivalent to determine which of these laws are significant for testing compliance, as discussed in FAM 245, *Identify Significant Provisions of Laws, Regulations, Contracts, and Grant Agreements,* and FAM 295 H, *List of General Laws*. The auditor may indicate whether each law meets the criteria for significance by placing a check mark in the appropriate column (yes or no).

.50 The auditor may use estimates or interim information in the preliminary column. The final amounts (based on the audited amounts or the final amounts of available budget authority) are used to determine whether all laws that would be significant in quantitative terms have been identified for control and compliance testing. The auditor should document the sources of all amounts included in this checklist. If the auditor determines the law is significant from a qualitative standpoint, then the auditor should document the reasons for this conclusion.

.51 The checklist also contains procedures that the auditor should perform to identify other laws and regulations for compliance testing, as discussed in FAM 245, *Identify Significant Provisions of Laws, Regulations, Contracts, and Grant Agreements*.

.52 Frequently encountered laws contained in supplements to the General Compliance Checklist (Form 802) that the auditor may test are as follows:

Law	**Supplement number**
Antideficiency Act (ADA), as provided primarily in Chapters 13 and 15 of Title 31, U.S. Code	FAM 803
Federal Credit Reform Act (FCRA), as provided in Sections 661 through 661f of Title 2, U.S. Code	FAM 804
Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37	FAM 805
Prompt Payment Act (PPA), as provided in 31 U.S.C. Chapter 39	FAM 806
Pay and Allowance System for Civilian Employees as provided primarily in Chapters 51 through 59 of Title 5, U.S. Code	FAM 807
Civil Service Retirement Act (CSRA), as provided in 5 U.S.C. Chapter 83	FAM 808
Federal Employees Health Benefits Act (FEHBA), as provided in 5 U.S.C. Chapter 89	FAM 809
Federal Employees' Compensation Act (FECA), as provided in 5 U.S.C. Chapter 81	FAM 810
Federal Employees' Retirement System Act (FERSA), as provided in 5 U.S.C. Chapter 84	FAM 811

Entity (enter)

Period of financial statements (enter)

Job code (enter)

Description of law

Antideficiency Act (ADA), as provided primarily in chapters 13 and 15 of Title 31, U.S. Code (31 U.S.C. 1341 and 1517)

This law imposes restrictions on the amounts of obligations or expenditures that entities may make. More specifically, this law provides that the entity's officers or employees, unless authorized by law, shall not:

1. make or authorize expenditures or obligations that exceed the amount available for expenditure or obligation in an appropriation or a fund;
2. involve the U.S. government in a contract or an obligation for the payment of money for any purpose before an appropriation for such purpose is made; or
3. make or authorize expenditures or obligations that exceed the amount of an apportionment (or reapportionment, if applicable) or a lesser amount, if any, established by entity regulations (*e.g.,* an allotment level).

As discussed in FAM 250, *Identify Relevant Budget Restrictions,* the auditor should obtain information on the entity's budget authority, from sources such as appropriation statutes, and identify all legally binding restrictions on budget execution.

Question(s)	**Yes / No**
Does the entity have appropriations or funds that are limited to an amount or a specified period of availability? Because the Antideficiency Act has no materiality limit, the auditor should complete the compliance supplement at FAM 803.	

Description of law

Federal Credit Reform Act (FCRA), as provided in Sections 661 through 661f of Title 2, U.S. Code

This law contains numerous provisions relating to the recording of activity related to direct loans, loan guarantees, and related loan modifications for budget accounting purposes. The law provides that on or after October 1, 1991, an agency may incur new direct loan obligations or make new loan guarantee commitments only to the extent that an appropriation or other budget authority is available to cover the costs of the direct loan or loan guarantee.

Question(s)	Yes / No
Does the entity's budget authority available during the audit period for direct loan obligations, loan guarantee commitments, or any related loan modifications exceed materiality, or did the auditor determine that FCRA has a direct effect on the determination of material amounts and disclosures in the entity's financial statements? <u>List the Preliminary and Final total appropriations</u> • For the Total appropriations or other budget authority available during the fiscal year for costs of FCRA activities (direct loans, direct loan obligations, loan guarantees, loan guarantee commitments, and related loan modifications) • And for the Materiality Note: If yes, then complete the compliance supplement at FAM 804.	

Description of law

Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37

These authorities address the collection of claims of the U.S. government, which involve most nontax amounts (*a.k.a.,* debts) that have been determined by an appropriate federal official to be owed to the U.S. government from nonfederal parties. These authorities generally apply in the absence of more specific legal requirements that directly address claims for particular circumstances. Interest generally accrues from the date that a notice stating the amount due and the interest policies is first mailed to the debtor. Interest generally accrues at a rate established by the Secretary of the Treasury. Generally, administrative costs and penalties shall also be charged.

The authorities also require the entity to take all appropriate steps to collect the debt before discharging it and to notify Treasury about delinquent debt for the use of certain debt collection tools, such as administrative offset. The authorities also generally require the entity not to make or guarantee loans to persons who owe delinquent debt. Further, in appropriate circumstances, the authorities permit the compromise, termination, or suspension of claims.

Question(s)	Yes / No
Does the cumulative amount of receivables created during the audit period that is subject to the Federal Debt Collection Authorities exceed materiality?	
Does the amount of receivables at the end of the audit period that is subject to the Federal Debt Collection Authorities exceed materiality?	
Did the auditor determine that the Federal Debt Collection Authorities have a direct effect on the determination of material amounts and disclosures in the entity's financial statements?	

Description of law

Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37

Question(s)	Yes / No
List the Preliminary and Final For the Cumulative amount of receivables created during the audit period that is subject to the Federal Debt Collection Authorities Or List the Preliminary and Final • For the Amount of receivables at the end of the audit period that is subject to the Federal Debt Collection Authorities • And for the Materiality If yes, then complete the compliance supplement at FAM 805. Note: These Federal Debt Collection Authorities generally do not apply to amounts payable to the entity under the Internal Revenue Code, the Social Security Act, or the tariff laws. Those laws contain specific provisions for these amounts.	

Description of law

Prompt Payment Act (PPA), as provided in 31 U.S.C. Chapter 39 (Sections 3901 through 3907, Title 31, U.S. Code)

The Prompt Payment Act requires federal entities to make payments for property or services by the due dates specified in the related contracts or, if a payment date is not specified in a contract, generally 30 days after a proper invoice for the amount due is received. If payments are not made within the appropriate period, then the entity shall pay an interest penalty. Also, discounts offered by vendors may be taken only during the specified period. If they are taken after the time period has expired, then an interest penalty shall be paid. Further, federal entities may only pay late payment interest penalties out of amounts made available to carry out the programs for which the penalties are incurred.

Question(s)	Yes / No
Do the entity's payments for property or services subject to the Prompt Payment Act for the audit period exceed materiality, or did the auditor determine that the Prompt Payment Act has a direct effect on the determination of material amounts and disclosures in the entity's financial statements? <u>List the Preliminary and Final</u> • Amount of payments made for property and services subject to the Prompt Payment Act • And for Materiality If yes, then complete the compliance supplement at FAM 806.	

Description of law

Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51 through 59 of Title 5, U.S. Code

These laws require that employees in specific positions be paid at the appropriate pay rates or schedules established by law. These include employees in positions subject to the General Schedule; prevailing rate employees; employees in certain senior-level positions, such as specially qualified scientific and professional personnel; employees appointed to the Senior Executive Service; and employees paid the minimum wage.

Question(s)	Yes / No
Does the entity's payroll expense for the audit period exceed materiality, or did the auditor determine that the Pay and Allowance System for Civilian Employees (as provided primarily in chapters 51 through 59 of Title 5, U.S. Code) has a direct effect on the determination of material amounts and disclosures in the entity's financial statements? List the Preliminary and the Final • For Payroll expense • And for Materiality If yes, then complete the compliance supplement at FAM 807. The entity's expenses for performance awards, cash awards, overtime, travel, transportation, subsistence, or allowances for the audit period usually do not exceed materiality. If, however, the auditor determines that these items or related provisions of the Pay and Allowance System for Civilian Employees are otherwise significant, then the auditor should consult with the Office of the General Counsel (OGC) for specific provisions to be compliance tested.	_____

Description of law

Civil Service Retirement Act (CSRA), as provided in 5 U.S.C. Chapter 83

This law provides retirement benefits to employees who were hired prior to January 1, 1984. For each employee, the entity withholds a percentage of basic pay from the employee's compensation and contributes an equal amount for retirement. For most employees, the entity contribution shall be paid from the appropriation account or fund used to pay the employee. The employee and entity amounts are deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund.

Question(s)	Yes / No
Does the entity's expense for retirement costs under the Civil Service Retirement Act for the audit period exceed materiality, or did the auditor determine that the Civil Service Retirement Act has a direct effect on the determination of material amounts and disclosures in the entity's financial statements?	

Question(s)	Yes / No
List the Preliminary and final for Expense for retirement contributions And for Materiality If yes, then complete the compliance supplement at FAM 808.	

Description of law

Federal Employees Health Benefits Act (FEHBA), as provided in 5 U.S.C. Chapter 89

This law provides health insurance coverage to employees who elect health insurance benefits. For each employee who elects coverage, the entity pays an amount set by the Office of Personnel Management (OPM) for health insurance costs. The entity portion cannot exceed 75 percent of the insurance cost. For most employees, the entity contribution shall be paid from the appropriation account or fund used to pay the employee. The employee pays the remainder of the total cost. The entity withholds the amount of the employee's portion of the cost from the employee's pay and remits this amount, along with its own contribution, to Treasury for deposit into the Employees Health Benefits Fund.

Question(s)	Yes / No
Does the entity's expense for health insurance costs for the audit period exceed materiality, or did the auditor determine that the Federal Employees Health Benefits Act has a direct effect on the determination of material amounts and disclosures in the entity's financial statements? List the Preliminary Final • For the Expense for health insurance • And for Materiality If yes, then complete the compliance supplement at FAM 809.	

Description of law

Federal Employees' Compensation Act (FECA), as provided in 5 U.S.C. Chapter 81

This law provides for the compensation of employees who are injured while performing their duties. Claims are paid out of the federal Employees' Compensation Fund (Fund). Federal entities are billed annually by the fund for claims paid on their behalf. Billed federal entities, which are funded by annual appropriations, must request an appropriation to cover the billed amounts in their budget requests during the next year. Within 30 days of their availability, amounts appropriated pursuant to the request shall be deposited into the Treasury to the credit of the Fund. If, however, the billed entity does not receive annual appropriations, then it shall make the required deposit into the Treasury to the credit of the Fund from funds under its control during the first 15 days of October after it receives the Fund cost statement.

Question(s)	Yes / No
Does the entity's expense for the audit period for benefits paid by the Fund on the entity's behalf exceed materiality, or did the auditor determine that FECA has a direct effect on the determination of material amounts and disclosures in the entity's financial statements? List the Preliminary Final • For the Expense for health insurance • And for Materiality If yes, then complete compliance supplement at FAM 810.	

Description of law

Federal Employees' Retirement System Act (FERSA), as provided in 5 U.S.C. Chapter 84

This law provides retirement benefits for employees who were hired after December 31, 1983, or employees who were previously covered under the Civil Service Retirement Act and elected to be covered under FERSA. For each employee, the entity withholds a percentage of basic pay from the employee's compensation and contributes an amount equal to the employing agency's applicable normal-cost percentage multiplied by the employee's aggregate amount of basic pay payable by the entity. For most employees, the entity contribution shall be paid from the appropriation account or fund used to pay the employee. The employee and entity amounts are deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund.

Question(s)	Yes / No
Does the entity's expense for retirement costs under FERSA for the audit period exceed materiality, or did the auditor determine that FERSA has a direct effect on the determination of material amounts and disclosures in the entity's financial statements? List the Preliminary Final • For the Expense for health insurance • And for Materiality If yes, then complete compliance supplement at FAM 811.	

Procedures for other laws and regulations	**Done by**	**Doc. Ref.**
1. Obtain a general understanding of the entity's legal and regulatory framework and how the entity complies with it by performing the following (AU-C 250.A8, *Obtaining an Understanding of the Legal and Regulatory Framework*): a. Update the auditor's existing understanding or knowledge of the entity's mission and programs, and legal, regulatory, and other external factors. b. Update the auditor's understanding or knowledge of the provisions of laws, regulations, contracts, or grant agreements that are used to directly determine amounts and disclosures in the financial statements. c. Consider the known history of the entity's noncompliance with provisions of laws, regulations, contracts, or grant agreements, including consideration of previous findings identified in audit planning (GAGAS (2011) 4.05, *Previous Audits and Attestation Engagements*). d. Inquire of management about the following: i. Other provisions of laws, regulations, contracts, or grant agreements that might have a fundamental effect on the entity's operations. ii. Entity policies and procedures regarding compliance with provisions of laws, regulations, contracts, or grant agreements and the prevention of noncompliance. iii. Entity policies or procedures for identifying, evaluating, and accounting for litigation, contract, or grant		

Procedures for other laws and regulations	Done by	Doc. Ref.
agreement claims. iv. The use of directives issued by the entity and periodic representations obtained from management at appropriate levels of authority regarding compliance with provisions of laws, regulations, contracts, or grant agreements. 2. Identify any other significant provisions of laws or regulations for compliance testing. Attach a list of the other laws or regulations identified to this form, and reference it to control and compliance work performed. The list may be prepared as a table or any other effective means of presenting the information. 3. As described in FAM 245.06, review the list of laws and regulations identified by the entity as significant and modify the listing in step 2 above to include any additional laws and regulations as needed. 4. Provide the laws and regulations listing to OGC. Working in collaboration with the auditors, OGC will review and revise the auditor-prepared listing for accuracy and completeness in identifying and describing significant provisions in applicable laws and regulations that could have a direct effect on the determination of material amounts and disclosures in the entity's financial statements. The auditor makes all determinations regarding materiality. After consulting with OGC, finalize the laws and regulations listing. 5. Determine whether to test compliance with any indirect laws or regulations and perform the procedures, as discussed in FAM 245.08 through .09. a. Inquire of management, and with those charged with governance, regarding policies and procedures that prevent noncompliance and whether they are in compliance with those policies and procedures. b. Through other audit procedures that the cycle teams perform that are not directly designed for compliance, determine whether any issues regarding provisions of laws, regulations, contracts, or grant agreements were identified. c. Review reports issued by other oversight bodies of the audited entity, such as GAO and the office of the inspector general, for any reported instances of noncompliance and determine if those instances could be material to the financial		

Procedures for other laws and regulations	Done by	Doc. Ref.
statements. 6. For all laws or regulations identified for testing above, identify significant provisions using the criteria in FAM 245.06. Test compliance controls and compliance as described in FAM 300, *Internal Control Phase,* and FAM 460, *Compliance Tests.*		

Instructions for Compliance Supplements

.08 Each compliance supplement in FAM 803 through 811 consists of (1) a compliance summary, (2) compliance audit procedures, and (3) footnotes.

Compliance Summary

.09 For each law identified for compliance testing on the General Compliance Checklist, the auditor should complete the related compliance summary or prepare equivalent documentation. The compliance summary is designed to assist the auditor in planning compliance control tests and summarizing the results of compliance control tests and compliance tests for reporting the results of the work performed.

.10 The first column of the compliance summary contains a descriptive title of the provision, an identification of the type of provision, a description of the specific provisions of the law that have been identified for compliance testing, and the legal reference(s) to the provision of law.

.11 The second column of the compliance summary contains the objective related to the specific provision to be used for both compliance control and compliance testing.

.12 In the third column of the compliance summary, the auditor should identify the control activities that the entity has in place to achieve each objective and document the control activity. If the entity does not have a control activity that achieves the objective, then the auditor should document this condition in the third column.

.13 The fourth column of the compliance summary is used to indicate (Yes or No) whether the control activity is related to information systems (IS), as described in FAM 270.04. IS controls are those whose effectiveness depends on computer processing. They can generally be classified into general, application, and user controls. The auditor generally should perform tests of IS controls with assistance from an IS specialist.

.14 The fifth column of the compliance summary indicates whether the auditor believes that compliance controls are effective (Yes or No). The auditor should design control tests to determine whether the control activities that have been identified in the third column are in place and operating effectively. A control activity is considered to be effective if it achieves the control objective. The auditor should provide a reference in the fifth column to the supporting documents of the control testing procedures, the control tests, the results of these tests, and the auditor's conclusions on the effectiveness of the compliance controls.

.15 The sixth column of the compliance summary indicates whether the auditor has noted any instances of noncompliance (Yes or No). The auditor should perform compliance tests using the related Compliance Audit Procedures discussed below or prepare equivalent documentation. In this column, the auditor should also refer to the supporting documents for the results of the compliance tests.

Compliance Audit Procedures

.16 Compliance audit procedures are provided for each law. For each law identified for compliance testing on the General Compliance Checklist, the auditor generally should perform each step of the related compliance audit procedures in the first column. Because the subject matter of some laws is closely related to matters the auditor will test in other parts of the audit, the auditor may coordinate with that other testing and design multipurpose tests. For example, payroll compliance testing could be performed using multipurpose tests of payroll controls and/or substantive payroll testing.

The auditor performing the procedure in the first column should initial and date in the second column when the procedure is performed. The auditor should include a reference to the documentation recording the work performed for each step in the third and last column of the compliance audit procedures.

Footnotes

.17 Footnotes are provided for each compliance supplement to assist the auditor in understanding criteria, definitions, exemptions, and restrictions of law. The footnotes also provide guidance to the auditor in testing and evaluating controls to achieve the compliance objective.

803 – Antideficiency Act (ADA), as provided primarily in Chapters 13 and 15 of Title 31, U.S. Code

Note: The auditor may complete this compliance summary or prepare equivalent documentation if the entity has appropriations or other funds that are limited to an amount or a specified period of availability. If so, the provisions of the Antideficiency Act (ADA), as provided primarily in Chapters 13 and 15 of Title 31, U.S. Code, are applicable as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-3. Office of Management and Budget (OMB) guidance on budget execution, including the Antideficiency Act, is included in OMB Circular No. A-11, *Preparing, Submitting, and Executing the Budget,* Part 4, *Instructions on Budget Execution.*

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
803.01. LIMITATIONS ON EXCESS EXPENDITURES AND OBLIGATIONS Provision Type: Quantitative-based. The entity's officers or employees shall not make or authorize expenditures or obligations that exceed the amount available for expenditure or obligation in an appropriation or a fund, unless authorized by law. 31 U.S.C. 1341(a)(1)(A).	Expenditures or obligations do not exceed the amount available for expenditure or obligation in an appropriation or a fund.	[Document the control activities that the entity used to achieve the objective.][29]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documenta-tion.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 803 step 3.

[29] The auditor should consider the results of the evaluation and testing of budget controls (FAM 370.11). These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act. Accordingly, additional determinations of controls that achieve the compliance objective generally are not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, *Budget Control Objectives*. The auditor should reference this

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
803.02. LIMITATIONS ON ADVANCE CONTRACTING OR OTHER LEGAL OBLIGATIONS Provision Type: Quantitative-based. The entity's officers or employees shall not involve the U.S. government in a contract or an obligation for the payment of money for any purpose before an appropriation for such purpose is made, unless authorized by law. 31 U.S.C. 1341(a)(1)(B).	Legal obligations do not occur before an appropriation is made or otherwise authorized by law.				See Compliance Audit Procedures, FAM 803 step 3.
803.03 LIMITATIONS ON EXCESS EXPENDITURES AND OBLIGATIONS RELATED TO APPORTIONMENTS AND ALLOTMENTS Provision Type: Quantitative-based. Unless authorized by law, the entity's officers or employees shall not make or authorize expenditures or obligations that exceed (1) the amount of an apportionment (or a reapportionment, if applicable) or (2) a lesser amount, if any, established by entity regulations (*e.g.,* an allotment level). [30] 31 U.S.C. 1517(a).	Expenditures or obligations do not exceed the legally binding limit on the entity's budget authority. (The amount of the apportionment or a lesser amount, if any, established by the entity's regulations.) See footnote 2 below.				See Compliance Audit Procedures, FAM 803 step 4.

compliance summary to the budget control evaluation and testing and perform any additional procedures determined to be necessary to conclude on whether compliance controls are effective.

[30] Entities are required to establish regulations that provide for a system of administrative controls over their execution of budget authority. 31 U.S.C. 1514(a). As discussed in FAM 250.03, an entity may elect to lower the level at which budget limitations are legally binding in these regulations. For example, the entity may elect to reduce the legally binding limit on the obligation and expenditure of budget funds from the apportionment level to the allotment level. The auditor should determine the level at which the entity's legally binding limit has been established.

Note: The auditor may perform these procedures or prepare equivalent documentation if the entity has appropriations or other funds that are limited to an amount or a specified period of availability. If so, the provisions of the Antideficiency Act (ADA), as provided primarily in Chapters 13 and 15 of Title 31, U.S. Code, are applicable , as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-3. These procedures test compliance with the provisions listed on the Compliance Summary. OMB guidance on budget execution, including the Antideficiency Act, is included in OMB Circular No. A-11, *Preparing, Submitting, and Executing the Budget,* Part 4, *Instructions on Budget Execution*.
Name of entity: (list)
Audit period: (list)
Reviewed by: (list)

Audit procedures	**Done by/date**	**Doc. ref.**
1. List the appropriations or other budget authority and the related budget accounts that were identified for compliance testing on Form 802, General Compliance Checklist. Per FAM 802.07 at page 802-3, the auditor should identify all legally binding restrictions on budget execution, from sources such as appropriation statutes. (The auditor may coordinate the following tests for compliance with the Antideficiency Act with tests of the Statement of Budgetary Resources and with tests of expenses.)		

Audit procedures	Done by/date	Doc. ref.
2. As discussed in FAM 460.03, the auditor should determine whether the summarized budget information (obligations and expenditures) used for compliance tests is reasonably accurate and complete. The auditor may obtain assurance through effective controls that the auditor tests (usually the budget controls) or, if the controls are not effective, through substantive testing of budget amounts for validity, completeness, cutoff, recording, classification, and summarization, as described in FAM 495 B, *Example Procedures for Tests of Budget Information.* For the accounts listed in step 1, document if the auditor will obtain this assurance by testing controls (as indicated on Form 803, Compliance Summary) or if substantive tests of the budget information are necessary. If the auditor determines that controls are not effective in meeting some or all of the budget control objectives listed in FAM 395 F, *Budget Control Objectives,* then the auditor should perform substantive tests of the budget amounts (obligations and expenditures), as discussed in FAM 495 B. The auditor should perform substantive tests only for those potential misstatements for which the entity does not have effective budget controls. After the auditor is satisfied as to the reasonableness of the budget amounts to be used for the compliance tests, perform the compliance tests in steps 3 and 4.		
3. Compare th e actual amounts of recorded obligations and expenditures with the related appropriation or other budget authority listed in step 1. If the entity does not appear to have complied with the provision, then perform step 6. See FAM 803.01, *Limitations on Excess Expenditures and Obligations.*		
4. Compare timing of legal obligations (contractual or otherwise) with available appropriation or other budget authority listed in step 1. If the entity does not appear to have complied with the provision, then perform step 6. See FAM 803.02, *Limitations on Advance Contracting or Other Legal Obligations*.		

Audit procedures	Done by/date	Doc. ref.
5. Determine the entity's legally binding level of budget authority (below the appropriation level) that was identified during the planning phase. This level is usually the apportionment level unless the entity has elected a lower level, such as allotments. Compare the amount of actual obligations and expenditures to the legally binding level of restrictions on budget authority identified for compliance testing (the apportionment or allotment level). If the entity does not appear to have complied with the provision, then perform step 6. See FAM 803.03, *Limitations on Excess Expenditures and Obligations Related to Apportionments and Allotments.*		
6. If the entity does not appear to be in compliance based on the results of tests performed, then discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted • identify the weakness in controls that allowed the noncompliance to occur, if not previously identified during control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
7. Contact the entity office responsible for submitting Antideficiency Act (ADA) violations to the President, the Congress, and GAO, and do the following: • Obtain a listing of violations for the year under audit; • Inquire if all known violations have been included on the list and reported; and • For each ADA violation, determine whether it was reported to the President, the Congress, and GAO.		

Audit procedures	Done by/date	Doc. ref.
8. Check GAO's ADA reporting web page: http://www.gao.gov/legal/lawresources/antideficiency.html to identify and obtain background about ADA violations reported by the entity and compare audit evidence with what the entity reported in ADA violation reports. There may be time lags as to when violations are reported, particularly at year-end.		
9. Document conclusions on compliance with each provision on Form 803, Compliance Summary.		

804 – Federal Credit Reform Act (FCRA), as provided in Sections 661 through 661f of Title 2, U.S. Code

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Credit Reform Act (FCRA), as provided in Sections 661 through 661f of Title 2, U.S. Code, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-4. OMB guidance on FCRA is included in OMB Circular No. A-11, *Preparing, Submitting, and Executing the Budget,* part 5, *Federal Credit*.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
804.01. ADVANCE BUDGET AUTHORITY REQUIRED FOR NEW DIRECT LOAN OBLIGATIONS Provision Type: Quantitative-based. New direct loan obligations may be incurred on or after October 1, 1991, only to the extent that an appropriation or other budget authority is available to cover these costs.[31, 32 ,33, 34, 35] 2 U.S.C. 661c(b).	Direct loan obligations made on or after October 1, 1991, do not exceed the available appropriation or other budget authority. (See footnotes 3 through 7 below.)	[Document the control activities that the entity used to achieve the objective.][36]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 804 steps 3 and 4.

[31] A direct loan is a disbursement of funds by the U.S. government to a nonfederal borrower under a contract that requires the repayment of such funds with or without interest. The term also includes the purchase of, or participation in, a loan made by another lender. The term does not include the acquisition of a federally guaranteed loan in satisfaction of default claims or the price support loans of the Commodity Credit Corporation. 2 U.S.C. 661a(1).

[32] A direct loan obligation is a binding agreement by a federal entity to make a direct loan when specified conditions are fulfilled by the borrower. 2 U.S.C. 661a(2).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
804.02. MODIFICATIONS OF OUTSTANDING DIRECT LOANS. Provision Type: Quantitative-based. A direct loan obligation or a direct loan, either of which is currently outstanding, shall not be modified in a manner that increases its cost unless budget authority for the additional cost is available.[37, 38, 39] 2 U.S.C. 661c(e).	Modifications made to outstanding direct loan obligations or outstanding direct loans do not exceed the available budget authority. (See footnotes 9 through 11 below.)	Consider pre-testing discussions with OGC.[40]			See Compliance Audit Procedures, FAM 804 step 3.

[33] Appropriations or other budget authority to cover the cost of budget obligations for direct loan obligations must be enacted in advance of new direct loan obligations made on or after October 1, 1991. 2 U.S.C. 661c(b). For revolving or other funds that otherwise would be available for these budget obligations, the Congress must enact a limit on the use of such funds for these purposes to make them available for use.

[34] Costs are defined as the estimated long-term cost to the U.S. government of a direct loan or a related loan modification, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. These calculations are described in further detail under the valuation control objective for obligations in FAM 395 F, *Budget Control Objectives.* 2 U.S.C. 661a(5)(A).

[35] There is an exemption from the requirement regarding advance budget authority for entitlements (*i.e.,* mandatory programs) and credit programs of the Commodity Credit Corporation existing on the date of enactment of FCRA (November 5, 1990). 2 U.S.C. 661c(c).

[36] The auditor should determine the results of the evaluation and testing of budget controls and testing of the Statement of Budgetary Resources. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act and FCRA. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, *Budget Control Objective,* including the supplemental control objectives for FCRA. The auditor should refer to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude on whether compliance controls are effective.

[37] Appropriations or other budget authority to cover the cost of budget obligations for direct loan obligations must be enacted in advance of new direct loan obligations made on or after October 1, 1991. 2 U.S.C. 661c(b). For revolving or other funds that otherwise would be available for these budget obligations, the Congress must enact a limit on the use of such funds for these purposes to make them available for use.

[38] Modifications are government actions that alter the estimated cost of an outstanding direct loan (or direct loan obligation) from the current estimate of cash flows. 2 U.S.C. 661a(9). This includes the sale of loan assets (with or without recourse), as well as any action resulting from new statutes, or from the exercise of administrative discretion under existing law, that directly or indirectly alters the estimating cost of outstanding direct loans (or direct loan obligations). 2 U.S.C. 661a(9). Thus, the sale of a direct loan, per SFFAS 2, paragraph 53, or a policy change affecting the repayment period or interest rate for a group of existing loans would constitute modifications, whereas changes within the terms of existing contracts or through other existing authorities would not be considered modifications. Also, "work outs" of individual loans, such as a change in the amount or timing of payments to be made, would not be considered modifications. The effects of these changes should be included in the annual reestimates of the estimated net present value of the obligations. Permanent indefinite authority is provided by FCRA for these reestimates. 2 U.S.C. 661c(f).

[39] Prior to performing control or compliance tests, the auditor should discuss with OGC the applicability of this budget restriction related to modification of direct loans or direct loan obligations that were outstanding prior to October 1, 1991.

[40] The auditor should determine the results of the evaluation and testing of budget controls and testing of the Statement of Budgetary Resources. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act and FCRA. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, *Budget Control*

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
804.03. ADVANCE BUDGET AUTHORITY REQUIRED FOR NEW LOAN GUARANTEE COMMITMENTS. Provision Type: Quantitative-based. Loan guarantee commitments may be made on or after October 1, 1991, only to the extent that an appropriation or other budget authority is available to cover these costs.[41, 42, 43, 44, 45] 2 U.S.C. 661c(b).	Obligations for new loan guarantee commitments made on or after October 1, 1991, do not exceed the available appropriation or other budget authority. (See footnotes 13 through 17 below.)	Consider pre-testing discussions with OGC.[46]			See Compliance Audit Procedures, FAM 804 steps 3 and 4.

Objective, including the supplemental control objectives for FCRA. The auditor should refer to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude on whether compliance controls are effective.

[41] A loan guarantee is any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a nonfederal borrower to a nonfederal lender, but does not include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. 2 U.S.C. 661a(3).

[42] A loan guarantee commitment is a binding agreement by a federal entity to make a loan guarantee when specified conditions are fulfilled by the borrower, the lender, or any other party to the guarantee agreement. 2 U.S.C. 661a(4).

[43] Appropriations or other budget authority to cover the cost of budget obligations for loan guarantee commitments must be enacted in advance of new loan guarantee commitments made after on or after October 1, 1991. 2 U.S.C. 661c(b). For revolving or other funds that otherwise would be available for these budget obligations, the Congress must enact a limit on the use of such funds for these purposes to make them available for use.

[44] Costs are defined as the estimated long-term cost to the U.S. government of a loan guarantee or a related loan modification, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. These calculations are described in further detail under the valuation control objective for obligations in FAM 395 F, *Budget Control Objectives.* 2 U.S.C. 661a(5)(A).

[45] There is an exemption from the requirement regarding advance budget authority for entitlements (*i.e.,* mandatory programs, such as the Department of Education direct and guaranteed student loan programs and the Department of Veterans Affairs home loan guaranty program) and credit programs of the Commodity Credit Corporation existing on the date of enactment of FCRA (November 5, 1990). 2 U.S.C. 661c(c).

[46] The auditor should determine the results of the evaluation and testing of budget controls and testing of the Statement of Budgetary Resources. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act and FCRA. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, *Budget Control Objective,* including the supplemental control objectives for FCRA. The auditor should refer to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude on whether compliance controls are effective.

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
804.04. MODIFICATIONS OF OUTSTANDING LOAN GUARANTEES. Provision Type: Quantitative-based. A loan guarantee commitment or a loan guarantee, either of which is currently outstanding, shall not be modified in a manner that increases its cost unless budget authority for the additional cost is available.[47, 48, 49] 2 U.S.C. 661c(e).	Modifications made to outstanding loan guarantee commitments or outstanding loan guarantees do not exceed the available budget authority. (See footnotes 19 through 21 below.)	Consider pre-testing discussions with OGC.[50]			See Compliance Audit Procedures, FAM 804 step 3.

[47] Appropriations or other budget authority to cover the cost of budget obligations for loan guarantee commitments must be enacted in advance of new loan guarantee commitments made after on or after October 1, 1991. 2 U.S.C. 661c(b). For revolving or other funds that otherwise would be available for these budget obligations, the Congress must enact a limit on the use of such funds for these purposes to make them available for use.

[48] Modifications are government actions that alter the estimated cost of an outstanding loan guarantee (or loan guarantee commitment) from the current estimate of cash flows. 2 U.S.C. 661a(9). This includes the purchase of guaranteed loans, as well as any action resulting from new statutes, or from the exercise of administrative discretion under existing law, that directly or indirectly alters the estimating cost of outstanding loan guarantees (or loan commitments) 2 U.S.C. 661a(9). Thus, a policy change affecting the repayment period or interest rate for a group of existing loans would constitute a modification, whereas changes within the terms of existing contracts or through other existing authorities would not be considered to be modifications. Also, "work outs" of individual loans, such as a change in the amount or timing of payments to be made, would not be considered modifications. The effects of these changes should be included in the annual reestimates of the estimated net present value of the obligations. Permanent indefinite authority is provided by FCRA for these reestimates. 2 U.S.C. 661c(f).

[49] Prior to performing control or compliance tests, the auditor should discuss with OGC the applicability of this budget restriction related to modification of loan guarantees or loan guarantee commitments that were outstanding prior to October 1, 1991.

[50] The auditor should determine the results of the evaluation and testing of budget controls and testing of the Statement of Budgetary Resources. These controls relate to the execution of budget authority and usually are the same controls that are used to comply with the Antideficiency Act and FCRA. Accordingly, additional consideration of controls that achieve the compliance objective generally is not necessary if the auditor has assessed whether the entity achieves all of the budget control objectives listed in FAM 395 F, *Budget Control Objective,* including the supplemental control objectives for FCRA. The auditor should refer to the budget control evaluation and testing and perform any additional procedures considered necessary to conclude on whether compliance controls are effective.

Note: The auditor may complete these procedures or prepare equivalent documentation only if provisions of the Federal Credit Reform Act (FCRA), as provided in Sections 661 through 661f of Title 2, U.S. Code, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-4. These procedures test compliance with the provisions listed on the Compliance Summary. OMB guidance on FCRA programs is included in OMB Circular No. A-11, *Preparing, Submitting, and Executing the Budget,* part 5, *Federal Credit*.

Name of entity: (list)
Audit period: (list)
Reviewed by: (list)

Audit procedures	**Done by/date**	**Doc. ref.**
1. List the appropriations or other budget authority and the related budget accounts that were identified for compliance testing on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-4.		
2. As discussed in FAM 460.03, the auditor should determine whether summarized budget information (obligations and expenditures) used for compliance tests is reasonably accurate and complete. The auditor may obtain assurance through effective controls that the auditor tests (usually the budget controls) or, if the controls are not effective, through substantive testing of budget amounts for validity, completeness, cutoff, recording, classification, and summarization, as described in FAM 495 B, *Example Procedures for Tests of Budget Information*. For the accounts listed in step 1, document if the auditor will obtain assurance by testing controls (as indicated on Form 804, Compliance Summary) or whether substantive tests of the budget information are necessary.		

Audit procedures	Done by/date	Doc. ref.
If the auditor determines that controls are not effective in meeting some or all of the budget control objectives listed in FAM 395 F, *Budget Control Objectives,* and the supplemental objectives for FCRA listed in FAM 395 F S, then the auditor should perform substantive tests of the budget amounts (obligations and expenditures), as discussed in FAM 495 B. The auditor should perform substantive tests only for those potential misstatements for which the entity does not have effective budget controls. After the auditor is satisfied as to the reasonableness of the budget amounts to be used for the compliance tests, the auditor should perform the compliance tests in steps 3 and 4.		
3. For each appropriation or other budget authority listed in step 1, perform the following procedures that are applicable for direct and guaranteed loan programs that have a positive subsidy (i.e., cash outflows exceed cash inflows); for direct and guaranteed loan programs that have a negative subsidy (i.e., cash inflows exceed cash outflows), perform step 4. (a) Compare the amount of obligations for direct loans to the amount of the available appropriation or other budget authority. (Note: This budget restriction is applicable only to obligations for direct loans made on or after October 1, 1991.)		
(b) Compare the amount of obligations for modifications of direct loan obligations or outstanding direct loans to the amount of available budget authority. (Note: The sale of a direct loan is considered a modification. See FAM 804.02, *Modifications of Outstanding Direct Loans*.) (Discuss applicability of this budget restriction to direct loans and direct loan obligations that were outstanding prior to October 1, 1991, with OGC prior to performing compliance test.)		

Audit procedures	Done by/date	Doc. ref.
3. (c) Compare the amount of obligations for loan guarantee commitments to the amount of the available appropriation or other budget authority. (Note: This budget restriction is only applicable to obligations for loan guarantee commitments made on or after October 1, 1991.)		
(d) Compare the amount of obligations for modifications of loan guarantee commitments or outstanding loan guarantees to the amount of available budget authority. (Note: Discuss applicability of this budget restriction to loan guarantees and loan guarantee commitments that were outstanding prior to October 1, 1991, with OGC before performing compliance test.) 2 U.S.C. 661c(b) and (e). If the amounts of obligations in any of these comparisons exceed the available budget authority, then the entity may not be in compliance. Perform step 5.		
4. Compare the total number and dollar volume of loans made to the loan limit in the applicable appropriations statute or other law for direct and guaranteed loan programs that have a negative subsidy (*i.e.,* cash inflows exceed cash outflows). Such programs do not receive an appropriation. However, such programs often have a loan limit that cannot be exceeded, that is, a maximum number of loans that can be made or guaranteed. Perform step 5.		

Audit procedures	Done by/date	Doc. ref.
5. If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude on whether noncompliance has actually occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in controls that allowed the noncompliance to occur, if not previously identified during control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
6. Document conclusions on compliance with each provision on Form 804, Compliance Summary.		

805 – Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if the Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-5. Implementing regulations on the Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37, are included in 31 C.F.R. Parts 285 and 900-904.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
805.01. INTEREST ON OUTSTANDING DEBT OWED TO THE ENTITY. Provision Type: Transaction-based. Generally, interest shall be charged on an outstanding nontax debt (or claim)[51] owed to the entity. [52, 53, 54, 55] 31 U.S.C. 3717(a). Normally, interest accrues from the date that the notice of the amount due and interest policies is first mailed to the debtor. 31 U.S.C. 3717(b). Generally, interest is charged at the rate established by the Secretary of the Treasury that is in effect on that date; further, that rate generally remains fixed for the duration of the indebtedness. 31 U.S.C. 3717(c).	Interest is properly calculated and charged on past due amounts owed to the entity at the correct rates. (See footnotes 23 through 27 below.)	[Document the control activities that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documenta-tion.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 805 steps 3 (a), (b), and (c).

[51] Under the Federal Debt Collection Authorities, a debt is defined as a nontax claim of the U.S. Government for money or property from a nonfederal party that has been determined by an appropriate entity official to be due to the U.S. Government. 31 U.S.C. 3701(b). This definition excludes amounts owed to an entity from another federal entity; however, it includes amounts owed for loans insured or guaranteed by the federal government, overpayments, and fines or penalties assessed by the entity. 31 U.S.C. 3701(b), (c). In this law,

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
805.02. ADDITIONAL DEBT-RELATED CHARGES: ADMINISTRATIVE COSTS AND PENALTIES. Provision Type: Transaction-based. The entity shall assess, on a claim owed to it (*i.e.,* a debt), a charge to cover the cost of processing and handling a delinquent claim (administrative costs), which shall be based on the actual costs incurred or upon estimated costs, as determined by the assessing entity. 31 U.S.C. 3717(e)(1). The entity shall also assess on a claim owed to it a penalty charge (of not more than 6 percent a year) for failure to pay a part of a claim more than 90 days past due. 31 U.S.C. 3717(e)(2). These additional charges do not accrue interest.[56, 57, 58] 31 U.S.C. 3717(f).	Administrative charges and late payment penalties are properly calculated and charged on past due amounts. (See footnotes 28 through 30 below.)				See Compliance Audit Procedures, FAM 805 step 3 (d).

the term "debt" is used interchangeably with the term "claim," and debts covered by this law do not apply to amounts payable under the Internal Revenue Code, the Social Security Act, or tariff laws. 31 U.S.C. 3701(b), (d).

[52] The entity shall waive the collection of interest on a claim (or any portion of the claim) that is paid within 30 days after the date on which interest began to accrue. 31 U.S.C. 3717(d). Further, the entity head may extend this 30-day period. 31 U.S.C. 3717(d). Interest that is either accrued or collected on claims that are paid within the 30-day period would usually not be material or otherwise significant for purposes of compliance testing. If the auditor considers this provision to be significant for compliance testing, then this form should be tailored to include the appropriate testing procedures.

[53] The requirements under 31 U.S.C. 3717 regarding charging interest on a debt do not apply to the extent that a statute, a regulation required by statute, a loan agreement, or a contract prohibits charging interest or explicitly fixes the interest. 31 U.S.C. 3717(g)(1). Additionally, these requirements do not apply to a claim under a contract executed before October 25, 1982, that is in effect on October 25, 1982. 31 U.S.C. 3717(g)(2).

[54] The entity has the authority to waive the collection of interest, penalties, and administrative charges. 31 U.S.C. 3717(h). To do so, the entity shall prescribe regulations identifying the circumstances that are appropriate for waiving interest collection, and such regulations shall be in conformity with standards prescribed jointly by the U.S. Comptroller General, the U.S. Attorney General, and the Secretary of the Treasury. 31 U.S.C. 3717(h).

[55] The entity may increase an administrative claim (a debt not based on an extension of government credit through direct loans, guarantees, or insurance, including fines, penalties, and overpayments) annually by the cost of living adjustment in lieu of charging interest and penalties. 31 U.S.C. 3717(i).

[56] The entity may not assess interest, administrative costs, or penalty charges under 31 U.S.C. 3717 if a statute, a regulation required by statute, a loan agreement, or a contract prohibits assessing charges or explicitly fixes the charges. 31 U.S.C. 3717(g).

[57] The entity has the authority to waive the collection of interest, penalties, and administrative charges. 31 U.S.C. 3717(h). To do so, the entity shall prescribe regulations identifying the circumstances that are appropriate for waiving interest collection, and such regulations shall be in conformity with standards prescribed jointly by the U.S. Comptroller General, the U.S. Attorney General, and the Secretary of the Treasury. 31 U.S.C. 3717(h).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
805.03. LESS THAN PAYMENT IN FULL: COMPROMISE, TERMINATION, OR SUSPENSION OF CLAIMS. Provision Type: Procedural-based. In general, the entity may compromise, terminate, or suspend claims,[59] which have not been referred to another entity for further collection action, when such claims are not more than $100,000 (excluding interest, penalties, and administrative costs) or such higher amounts as the U.S. Attorney General may prescribe. 31 U.S.C. 3711(a)(2), (3). Unless otherwise provided by law, claims of more than $100,000 (excluding interest, penalties, and administrative costs) shall be referred to the Department of Justice for compromise, termination, or suspension.[60] 31 C.F.R. 902.1(b) and 903.1(b).	Claims of more than $100,000 (excluding interest, penalties, and administrative costs) are referred to the Department of Justice for compromise, termination, or suspension. (See footnotes 31 and 32 below.)				See Compliance Audit Procedures, FAM 805 step 5 (a).

[58] The entity may increase an administrative claim (a debt not based on an extension of government credit through direct loans, guarantees, or insurance, including fines, penalties, and overpayments) annually by the cost of living adjustment in lieu of charging interest and penalties. 31 U.S.C. 3717(i).

[59] Compromise is the term used when an amount less than the total amount of the claim is accepted by the entity as payment in full. 31 C.F.R. 902.2. Suspension refers to the temporary deferral of collection activities until collection activity is expected to be more successful. 31 C.F.R. 903.2. Termination refers to stopping of collection activities. 31 C.F.R. 903.3.

[60] Only the Department of Justice has the authority to compromise, terminate, or suspend collection on claims that are greater than $100,000 (excluding interest, penalties, and administrative charges). Pursuant to 31 C.F.R. 902.1 and 903.1, entities generally should use a Claims Collection Litigation Report (CCLR) to refer such matters to the Department of Justice.

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
805.04. ADMINISTRATIVE OFFSET: TREASURY NOTIFICATION AND REFERRAL OF CLAIMS. Provision Type: Procedural-based. In general, if the entity is owed a valid and legally enforceable, nontax debt delinquent over 120 days, and there are no bars to collection, then the entity shall notify Treasury about the debt for administrative offset; and refer the debt to Treasury or a Treasury-designated debt collection center for collection action.[61,62,63,64,65,66] 31 U.S.C. 3711(g)(1) and 3716(c)(6)(A) and 31 C.F.R. 285.12(g).	When nontax debt becomes delinquent over 120 days, it is referred to Treasury for administrative offset and collection. (See footnotes 33 through 38 below.)				See Compliance Audit Procedures, FAM 805 step 5 (b).

[61] Before discharging debt owed to the entity, the entity head shall take all appropriate steps to collect such debt, including administrative offset. 31 U.S.C. 3711(g)(9)(A).

[62] Under implementing Treasury regulations, the 120-day referral requirement applies to all entities relying on Treasury's Bureau of the Fiscal Service to submit debts for administrative offset on the entity's behalf. 31 C.F.R. 285.12(g). Further, by referring the delinquent debt to Treasury or a Treasury-designated debt collection center, the entity's referral action will satisfy the 120-day notification requirement. 31 C.F.R. 2815.12(g).

[63] There is no statute of limitation on using administrative offset for debt collection. 31 U.S.C. 3716(e)(1). Under applicable regulations, however, generally the U.S. Government will not use administrative offset for claims collection purposes more than 10 years after the U.S. Government's right to collect the claim first accrued. 31 C.F.R. 901.3(a)(4).

[64] An exception to the Treasury notification and referral requirement of nontax debt delinquent over 120 days for administrative offset is when a statute explicitly prohibits using administrative offset or setoff to collect the type of claim involved. 31 U.S.C. 3716(e)(2). Also, this section does not prohibit the use of any other existing administrative offset authority. 31 U.S.C. 3716(d).

[65] Before collecting a claim by administrative offset, an entity must adopt regulations on collecting claims by administrative offset, which are be in conformity with the regulations issued jointly by the U.S. Comptroller General, the U.S. Attorney General, and the Secretary of the Treasury. 31 U.S.C. 3716(b). Such regulations must provide that prior to initiating collection by administrative offset, the entity (1) shall provide written notice to the debtor of (A) the type and amount of the debt, (B) the entity's intention to use administrative offset to collect the debt, and (C) an explanation of the debtor's rights under 31 U.S.C. 3716; and (2) shall provide the debtor with the opportunity (A) to inspect and copy entity records related to the debt, (B) for a review within the entity of the determination of indebtedness, and (C) to make a written agreement to repay the debt. 31 C.F.R. 901.3(b)(4).

[66] Exceptions to the requirement to transfer nontax debt delinquent for a period of 120 days to Treasury for collection are (1) a debt or claim that (A) is in litigation or foreclosure, (B) will be disposed of under an asset sales program within 1 year after becoming eligible for sale, or later than 1 year if consistent with an asset sales program and a schedule established by the entity and approved by OMB, (C) has been referred to a private collection contractor for collection for a period determined by Treasury, (D) has been referred by, or with the consent of, Treasury to a debt collection center for a period determined by Treasury, or (E) will be collected under internal offset, if such offset is sufficient to collect the claim within 3 years after the date the debt or claim is first delinquent; and (2) to any other specific class of debt or claim, as determined by Treasury at the request of an entity. 31 U.S.C. 3711(g)(2) and 31 U.S.C. 3716(c)(6)(A).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
805.05. DENYING FEDERAL FINANCIAL ASSISTANCE TO DELINQUENT DEBTORS. Provision Type: Transaction-based. Unless waived by the entity, a person may not obtain any loan (other than one of the listed exceptions, such as a disaster loan) or loan insurance or guarantee administered by the entity if the person has outstanding nontax delinquent federal debt. 31 U.S.C. 3720B(a). Delinquency is determined under standards prescribed in implementing Treasury regulations. 31 U.S.C. 3720B(a).	Loans and loan insurance or guarantees are not granted to persons with delinquent nontax debt.				See Compliance Audit Procedures, FAM 805 step 4 (b).

Note: The auditor may perform these procedures or prepare equivalent documentation only if the Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-5. These procedures test compliance with the provisions listed on the Compliance Summary. Implementing regulations on the Federal Debt Collection Authorities, as provided in 31 U.S.C. Chapter 37, are included in 31 C.F.R. Parts 285 and 900-904.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Audit procedures	Done by/date	Doc. ref.
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 805, Compliance Summary), select a sample of amounts owed to the entity during or at the end of the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using FAM 495 E, *Sampling*.[67] Sample size _____ Sample selection method _____		

[67] If the auditor uses multipurpose testing for the compliance test and/or compliance control test and/or a substantive test of accounts or loans receivable details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test as described in FAM 430, *Design Tests*. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should determine the completeness of the test population. For efficiency, the auditor should use records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

Audit procedures	Done by/date	Doc. ref.
2. For each item selected in step 1, obtain the loan file or other supporting documentation and note the following information as of the date selected for testing: • due date of debt; • amount owed; • date the notice of the amount due and the interest policies is first mailed to the debtor; • amount of interest accrued and other administrative charges and penalties charged, if any; and • number of days the debt is past due, if any. Perform step 3 if the debt is past due. Perform step 4 if the debt is not past due.		
3. If the amount selected is past due: (a) Calculate the number of days that interest should be accrued on the debt as of the date selected for testing. Interest generally accrues from the date that the notice of the amount due is first mailed to the debtor. Compare the auditor's calculation with the entity's calculation and obtain explanation and examine support for any differences. See FAM 805.01, *Interest on Outstanding Debt Owed to the Entity.*		
(b) Determine the interest rate that should be used to accrue interest on the debt. Unless otherwise established in a contract, in a repayment agreement, or by statute, the rate is the one published in the *Federal Register* and should be the rate that was in effect on the date that the notice of the amount due was first mailed to the debtor. Compare the auditor's determination of the rate to the rate used by the entity, and obtain explanation and examine support for any differences. See FAM 805.01, *Interest on Outstanding Debt Owed to the Entity.*		

Audit procedures	Done by/date	Doc. ref.
3. (c) Calculate the amount of interest that should be owed as of the date selected for testing using the number of days tested in (a) and the interest rate tested in (b). Compare the auditor's calculation to the amount calculated by the entity, and obtain an explanation and examine support for any differences. See FAM 805.01, *Interest on Outstanding Debt Owed to the Entity.*		
(d) Obtain the entity's schedule of administrative charges and late payment penalties and determine if the appropriate amounts were charged to the debtor. See FAM 805.02, *Additional Debt-Related Charges: Administrative Costs and Penalties.*		
4. If the debt is not past due, then determine through examination of the entity's records whether (a) interest, administrative charges, or penalties are not being charged and (b) the debtor had no outstanding nontax delinquent federal debt at the time the loan was obtained. See FAM 805.05, *Denying Federal Financial Assistance to Delinquent Debtors.*		

Audit procedures	Done by/date	Doc. ref.
5. The objectives listed below relate to procedural-based provisions. As discussed in FAM 460.06, the auditor usually performs sufficient procedures in conjunction with tests of compliance controls for these procedural-based provisions to conclude on the entity's compliance without performing additional procedures. The auditor should not perform additional procedures to obtain evidence regarding compliance with the provisions related to the following objectives unless sufficient evidence regarding compliance was not obtained during compliance control tests documented on Form 805, Compliance Summary. (a) Nontax claims of more than $100,000 (excluding interest, penalties, and administrative costs) are referred to the Department of Justice for compromise, termination, or suspension. See FAM 805.03, *Less Than Payment in Full: Compromise, Termination, or Suspension of Claims.* (b) Unless an exception applies, nontax claims delinquent for a period of 120 days have been referred to Treasury for collection. See FAM 805.04, *Administrative Offset: Treasury Notification and Referral of Claims.*		
6. If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude on whether noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if they were not previously identified during compliance control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		

Audit procedures	Done by/date	Doc. ref.
7. Document conclusions on compliance with each provision on Form 805, Compliance Summary.		

806 – Prompt Payment Act (PPA), as provided in 31 U.S.C. Chapter 39

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Prompt Payment Act (PPA), as provided in 31 U.S.C. Chapter 39, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-7. Implementing regulations for the Prompt Payment Act are included in 5 C.F.R. Part 1315.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
806.01. INTEREST PENALTIES FOR LATE PAYMENTS. Provision Type: Transaction-based. If payment for property or services[68] from a business concern is not made[69] by the required due date,[70] then an interest penalty[71] shall be paid to the concern on the amount of the payment due.[72] 31 U.S.C. 3902(a). The interest penalty shall be paid for the period beginning on the day after the required payment date and ending on the date on which payment is made.[73] 31 U.S.C. 3902(b).	1a. All payments for property or services that are not made by the payment due date are identified. (See note 1.) 1b. Interest penalties are calculated and paid on the past due amount using the appropriate interest rate and period. (See footnotes 40 through 45 below.)	[Document the control activities that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documenta-tion.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 806 step 4 (a) and (b).

[68] The payment requirement applies for each complete delivered item or each complete service performed. 31 U.S.C. 3902(a).
[69] A payment is deemed to be made on the date that a check for payment is dated or an electronic transfer is made. 31 U.S.C. 3901(a)(5).
[70] The required due date is generally the date specified in the contract or, if a date is not specified, 30 days after receipt of a proper invoice. 31 U.S.C. 3903(a)(1). If payment is for meat or meat food products, perishable agricultural products, dairy products, or construction contracts, then consult with OGC to determine the payment due date. Specific payment due dates to avoid interest penalties are established by law for these items. 31 U.S.C. 3903(a)(2), (3), (4), and (6).
The invoice receipt date is established as the later of (1) the date the entity's designated representative or office actually receives a proper invoice or (2) the 7th day after the date on which, in accordance with the terms and conditions of the contract, the property is actually delivered or performance of the services is actually completed, unless the entity accepted the property or services before the 7th day or a longer acceptance date is specified in the contract. 31 U.S.C. 3901(a)(4)(A). If the date of actual invoice receipt is not indicated, then the entity must use the invoice date. 31 U.S.C. 3901(a)(4)(B).
[71] Interest shall be calculated at the rate set by the Secretary of the Treasury under section 12 of the Contract Disputes Act of 1978 (41 U.S.C. 7109) that is in effect at the time the entity accrues the obligation to pay a late payment interest penalty. 31 U.S.C. 3902(a). The rates are published in the *Federal Register*. 31 U.S.C. 3902(a).
[72] The temporary unavailability of funds to make a timely payment due for property or services does not relieve the entity head of the obligation to pay interest penalties under this law. 31 U.S.C. 3902(d).
[73] An interest penalty not paid after any 30-day period shall be added to the principal amount of the debt, and a penalty accrues thereafter on the combined amount of principal and interest. 31 U.S.C. 3902(e).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
806.02. FUNDING SOURCE FOR LATE PAYMENT INTEREST PENALTIES. Provision Type: Transaction-based. Interest penalties shall be paid out of amounts made available to carry out the programs for which the penalties are incurred.[74] 31 U.S.C. 3902(f).	2. Interest penalties are paid out of the appropriation account used to pay related program expenditures.				See Compliance Audit Procedures, FAM 806 steps 4 (c), 5 (c), and 6.
806.03. LIMITATIONS ON DISCOUNT PAYMENTS. Provision Type: Transaction-based. Discounts offered by a business concern may be taken only if payment is made within the specified time as determined from the date of the invoice.[75] An interest penalty shall be paid on improperly taken discounts. 31 U.S.C. 3904.	3a. Discounts taken after the specified time period are identified. 3b. Interest penalties are properly calculated and paid on the amount of any improperly taken discounts using the appropriate interest rate and period.				See Compliance Audit Procedures, FAM 806 step 5 (a) and (b).

[74] The Prompt Payment Act does not authorize the appropriation of additional amounts to pay a late payment interest penalty. 31 U.S.C. 3902(f).
[75] For purposes of this law, a proper invoice for the amount due is an invoice containing or accompanied by substantiating documentation, which the entity head may require by regulation or contract or OMB may require by regulation. 31 U.S.C. 3901(a)(3).

Note: The auditor may complete this program or prepare equivalent documentation only if provisions of the Prompt Payment Act (PPA), as provided in 31 U.S.C. Chapter 39, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-7. These procedures test compliance with the provisions listed on the Compliance Summary. Implementing regulations for the Prompt Payment Act are included in 5 C.F.R. Part 1315.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Audit procedures	**Done by/date**	**Doc. ref.**
1) Based on the preliminary assessment of compliance control effectiveness (as documented on Form 806, Compliance Summary), select a sample of payments from throughout the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02.) Document the sampling approach using FAM 495 E, *Sampling*.[76] Sample size _____ Sample selection method _____		

[76] If the auditor uses multipurpose testing for the compliance test and/or compliance control test and/or a substantive test of payments details, the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test, as described in FAM 430, *Design Tests*. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

Audit procedures	Done by/date	Doc. ref.
2) For each item selected in step 1, obtain the supporting documentation for the payment, such as the invoice voucher package. a) Document the following items: • invoice number; • payee; • invoice amount; • invoice date; • invoice receipt date (or other date used for determining compliance with this law—see step 2(b)); • payment date; • amount of interest penalty paid, if any; • amount of discount taken, if any; and • appropriation account(s) charged for the expenditure and interest penalty, if any.		

Audit procedures	Done by/date	Doc. ref.
b) For each item selected, note whether the payment was made by the required due date. The required due date may be the date specified in the contract or, if a date is not specified, 30 days after receipt of the invoice. If payment is for meat or meat food products, perishable agricultural products, dairy products, or construction contracts, then consult with OGC to determine the payment due date. Specific payment due dates to avoid interest penalties are established by law for these items. See FAM 806.01, *Interest Penalties for Late Payments.* The invoice receipt date is the later of (1) the date the entity's designated representative or office actually receives a proper invoice or (2) the 7th day after the date on which, in accordance with the terms and conditions of the contract, the property is actually delivered or performance of the services is actually completed (unless the entity accepted the property or services before the 7th day or a longer acceptance period is specified in the contract). If the date of actual invoice receipt is not indicated, then the entity must use the invoice date. See FAM 806.01, *Interest Penalties for Late Payments.* If the payment was made on or prior to the payment due date, then perform step 3. If the payment was made after the payment due date, then perform step 4. If a discount was taken, then perform step 5.		
3) If the payment was made on or prior to the payment due date, and no discount was taken, then determine that no interest penalty was paid. (Note: If the entity did not take advantage of a discount for which it was eligible or if an interest penalty was paid when it was not owed, then the auditor generally should determine the cause of these items for purposes of reporting findings.)		

Audit procedures	Done by/date	Doc. ref.
4) If the payment was made after the payment due date, then determine whether a) an interest penalty was paid, b) the amount of the interest penalty was properly calculated, and c) the interest penalty was paid out of the appropriation account used to pay the related expenditures. See FAM 806.01, *Interest Penalties for Late Payments.* Review the accounting codes indicated on the expense voucher. Determine whether the accounting codes used to record the interest penalty are the same as those used for the related expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (See step 6 regarding proper summarization of amounts.) See FAM 806.01, *Interest Penalties for Late Payments;* and FAM 806.02*, Funding Source for Late Payment Interest Penalties.* Investigate any differences between the amount of interest penalty calculated by the auditor and the amount paid by the entity, including any instances when an interest penalty was owed but not paid. Investigate any instances when the proper appropriation account was not charged. See FAM 806.01, *Interest Penalties for Late Payments.*		

Audit procedures	Done by/date	Doc. ref.
5) If a discount was taken, then determine whether it was taken during the specified period during which the discount was available. If the discount was taken during the specified period, then further consideration is not necessary. If any discounts are taken after the appropriate time period, determine whether a) an interest penalty was paid, b) the amount of the interest penalty was properly calculated, and c) the interest penalty was charged against the appropriation account used for the related expenditures. Review the budget accounting codes indicated on the expense voucher. Determine whether the budget accounting codes indicated on the voucher for the interest penalty are the same as those used for the related expenditure. Determine whether the codes and amounts on the voucher agree with those recorded in the budgetary accounting records. (See step 6 regarding proper summarization of the budgetary amounts.) 31 U.S.C. 3902 (a), (b), and (f), and 31 U.S.C. 3904. Interest penalties (see FAM 806.01, *Interest Penalties for Late Payments*) should be calculated on the amount of the discount. The penalty accrues on the amount of the discount from the last date specified that the discounted amount may be paid. See FAM 806.03, *Limitations on Discount Payments.* Investigate any differences between the amount of interest penalty calculated by the auditor and the amount paid by the entity, including any instances when an interest penalty was owed but not paid. Investigate any instances when the proper appropriation account was not charged.		

Audit procedures	Done by/date	Doc. ref.
6) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances as discussed in FAM 395 F*, Budget Control Objectives*. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarizing expenditure balances, then further procedures are not necessary to obtain assurance as to whether interest penalties are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, then the auditor should perform procedures to determine if the entity has properly summarized the expenditure balances, as described in FAM 495 B, *Example Procedures for Tests of Budget Information*.		
7) If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude on whether noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if it was not previously identified during compliance control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
8) Document conclusions on compliance with each provision on Form 806, Compliance Summary.		

Note: If the auditor uses multipurpose testing for the compliance test and/or compliance control test and/or a substantive test of payments details, then the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test, as described in FAM 430, *Design Tests*. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the

completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity, accuracy, and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of the population.

807 – Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51 through 59 of Title 5, U.S. Code

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51 through 59 of Title 5, U.S. Code, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-8. Implementing regulations issued by the Office of Personnel Management are included in Title 5, U.S. Code of Federal Regulations.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
807.01. PAY RATE OR SCHEDULE FOR EMPLOYEES IN SPECIFIC POSITIONS. Provision Type: Transaction-based. Pay for employees in a specific position should be based on those employees' appropriate pay schedule or pay rate.[77] These include employees in positions subject to the General Schedule (5 U.S.C. 5332); prevailing rate employees (5 U.S.C. 5343); employees in certain senior-level positions, such as specially qualified scientific and professional personnel (5 U.S.C. 5376); employees appointed to the Senior Executive Service (5 U.S.C. 5383); and employees paid the minimum wage (29 U.S.C. 206).	Employees are paid at appropriate rates.	[Document the control activities that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 807 step 4 (b).

[77] For employees receiving an annual rate of basic pay, calculate the corresponding hourly, daily, weekly, or biweekly rate, by applying the methodology set out in 5 U.S.C. 5504(b). To derive an hourly rate, divide the annual rate by 2,087; to derive a daily rate, multiply the hourly rate by the number of daily hours of service required; to derive a weekly rate, multiply the hourly rate by 40; and to derive a biweekly rate, multiply the hourly rate by 80. 5 U.S.C. 5504(b).

Note: The auditor may complete these procedures or prepare equivalent documentation only if provisions of the Pay and Allowance System for Civilian Employees, as provided primarily in Chapters 51 through 59 of Title 5, U.S. Code, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-8. These procedures test compliance with the provisions listed on the Compliance Summary. Implementing regulations issued by the Office of Personnel Management are included in Title 5, U.S. Code of Federal Regulations.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Note: These tests are closely related to procedures performed for substantive tests of payroll expense details, and multipurpose testing in this situation is strongly encouraged.

Audit procedures	Done by/date	Doc. ref.
9) Based on the preliminary assessment of compliance control effectiveness (as documented on Form 807, Compliance Summary), select an appropriate sample of disbursements from the payroll records throughout the audit period. (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using FAM 495 E, *Sampling*.[78] Sample size _____ Sample selection method _____		
10) For each item selected in 1, note the following information: • employee name; • pay period (number and dates); • amount of gross pay for the period; • pay rate; • total hours worked; and • number of hours worked at regular pay and other pay (i.e., overtime, premium pay, etc.).		

[78] If the auditor uses multipurpose testing for the compliance test and/or compliance control test and a substantive test of payroll expense details, then the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll-related compliance tests.

Audit procedures	Done by/date	Doc. ref.
11) For each item selected in 1, obtain the employee's personnel file and note the following in effect for the pay period selected: • the employee's grade and step and • the employee's pay rate and pay plan (non-GS employees).		
12) For each item selected in 1, take the following actions: a) Calculate the amount of gross pay using the hours worked and the employee's pay rate indicated on the payroll records. Compare the amount of gross pay calculated by the auditor to the amount shown on the payroll records for the selected pay period, and obtain explanation and examine support for any differences. See FAM 807.01, *Pay Rate or Schedule for Employees in Specific Positions.* b) Compare the employee's pay rate in the payroll records to the appropriate pay rate for the employee's approved grade and step on the pay schedules established by executive order. (Use the approved grade and step indicated in the employee's personnel records for this test.) Obtain explanation and examine support for any differences between the actual pay rate for the period selected and the authorized amounts. See 5 U.S.C. 5332 for employees in positions subject to the General Schedule; 5 U.S.C. 5343 for prevailing rate employees; 5 U.S.C. 5376 for employees in certain senior-level positions, such as specially qualified scientific and professional personnel; 5 U.S.C. 5383 for employees appointed to the Senior Executive Service; and 29 U.S.C. 206 for employees paid the minimum wage. If the employee's pay is not set by these pay schedules, then determine whether the amount paid is properly authorized.		

Note: If the entity outsources payroll processing, then the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more complicated; however, the auditor should perform the same testing. The auditor may accomplish this testing with the assistance

of the service organization's auditor, who may issue an internal control report on the service organization under AT-C 320 (Statement of Standards for Attestation Engagements (SSAE) 18). Another approach may be for the service organization's auditor to assist the entity's auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT-C 215 (see FAM 710, Agreed-Upon Procedures).

808 – Civil Service Retirement Act (CSRA), as provided in 5 U.S.C. Chapter 83

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Civil Service Retirement Act (CSRA), as provided in 5 U.S.C. Chapter 83, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-9. Implementing regulations for CSRA's general administration are included in 5 C.F.R. Part 831.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
808.01. ENTITY WITHHOLDINGS FROM EMPLOYEE PAY FOR RETIREMENT BENEFITS. Provision Type: Transaction-based. For each employee[79] employed prior to January 1, 1984,[80] the entity shall withhold a percentage of the employee's basic pay.[81] 5 U.S.C. 8334(a)(1).	The appropriate amount is withheld from employee's pay. (See footnotes 51 through 53 below.)	[Document the control activities that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 808 step 4 (b).

[79] For who qualifies as an employee for purposes of CSRA, see 5 U.S.C. 8331(1).

[80] Employees employed before January 1, 1984, are generally covered by the Civil Service Retirement Act (CSRA) and on and after that date by the Federal Employees' Retirement System Act (FERSA), although some CSRA employees may have opted for coverage subject to FERSA.

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
808.02. ENTITY CONTRIBUTIONS FOR EMPLOYEE RETIREMENT BENEFITS. Provision Types: Transaction-based and quantitative-based. An amount equal to the amount withheld from the employee's pay shall be contributed by the entity. 5 U.S.C. 8334(a)(1). For most employees, the entity contribution shall be paid from the appropriation account or fund used to pay the employee. 5 U.S.C. 8334(a)(1)(B).	The entity contribution for employee retirement is calculated properly, summarized properly, and charged to the proper appropriation account or fund.				See Compliance Audit Procedures, FAM 808 steps 4 (c) and 5.
808.03. DEPOSITS INTO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND. Provision Types: Procedural-based and quantitative-based. Amounts withheld from employees and the sum contributed by the entity for retirement benefits shall be deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund.[82] 5 U.S.C. 8334(a)(2).	Withholdings from employees and entity contributions for retirement benefits are properly summarized and deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund.				See Compliance Audit Procedures, FAM 808 steps 6 and 7.

[81] The percentage to be withheld for the service period for (1) most executive branch employees is 7 percent; (2) congressional employees, firefighters, and law enforcement personnel is 7.5 percent; and (3) Members of the Congress is 8 percent. 5 U.S.C. 8334(a)(1).

[82] The Civil Service Retirement and Disability Fund is the fund established under 5 U.S.C. 8348 that is available for the payment of employee benefits (primarily retirement) under chapters 83 and 84 of Title 5, U.S. Code, and for specified administrative expenses incurred by Office of Personnel Management (OPM) or the Merit Systems Protection Board. 5 U.S.C. 8331(5).

Note: The auditor may complete these procedures or prepare equivalent documentation only if provisions of the Civil Service Retirement Act (CSRA), as provided in 5 U.S.C. Chapter 83, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-9. These procedures test compliance with the provisions listed on the Compliance Summary. Implementing regulations for CSRA's general administration are included in 5 C.F.R. Part 831.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Audit procedures	Done by/date	Doc. ref.
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 808, Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period for employees covered by the Civil Service Retirement System (CSRS). See FAM 808.01, *Entity Withholdings From Employee Pay for Retirement Benefits.* (The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02). Document the sampling approach using FAM 495 E, *Sampling*.[83] These tests should be coordinated with other tests of payroll-related expenses and with the agreed-upon procedures that agency auditors perform for the Office of Personnel Management (OPM), per OMB audit guidance, if performed. Sample size _____ Sample selection method _____		

[83] If the auditor uses multipurpose testing for the compliance test and/or compliance control test and a substantive test of payroll expense details, then the sample items for the compliance test and/or compliance control test should be selected by the auditor using the sampling method used for the substantive test. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Audit procedures	Done by/date	Doc. ref.
2. For each selection made in 1, document the following for the pay period selected: • the amount withheld for the cost of retirement benefits; • the amount of basic pay; and • if indicated in the payroll disbursement records, the retirement plan under which the withholdings were made (CSRS or the Federal Employees Retirement System (FERS)). (Only employees covered by CSRS should be included in this compliance test. See FAM 811 for the FERS compliance test.)		
3. For each item selected in 1, obtain the employee's personnel file and note the following: • employee hire date, • amount of basic pay, and • the retirement plan under which the employee is covered.		
4. For each selection made in 1, take the following actions: (a) Compare the amount of basic pay indicated in the employee's personnel file with the amount indicated in the payroll records, and obtain an explanation and examine support for any differences. (This procedure would be performed only if not already performed with other testing.) (b) Calculate the amount of the withholdings for retirement costs based on 7 percent of basic pay for most executive branch employees for the selected pay period and document the amount. Compare to the actual amount withheld for the selected pay period, and obtain an explanation and examine support for any differences. See FAM 808.01, *Entity Withholdings From Employee Pay for Retirement Benefits.*		

Audit procedures	Done by/date	Doc. ref.
(c) Determine whether the entity contributed an equal amount for the employee's retirement for the selected pay period. Obtain explanation and examine support for any differences between the employee and entity contributions. See FAM 808.02, *Entity Contributions for Retirement Benefits.*		
5. Determine whether amounts contributed by the entity are charged to the appropriation account or fund used to pay the employee for the selected pay period by performing the following procedures: (a) Review the accounting codes indicated on the supporting documentation. (b) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation account.) (c) Consider the procedures performed on the entity's budget controls for summarizing expenditure balances, as discussed in FAM 395 F*, Budget Control Objectives.* If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, then further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, then the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances, as described in FAM 495 B, *Example Procedures for Tests of Budget Information.* See FAM 808.02, *Entity Contributions for Retirement Benefits.*		

Audit procedures	Done by/date	Doc. ref.
6. Determine whether the entity has effective internal controls over the proper summarization of (a) the amounts withheld from employees for retirement benefits under the law and (b) the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, then test the summarization of the totals that include the items selected for testing in step 1.		
7. Compare the combined totals of employee withholdings and entity contributions that include each selection made in step 1 to the deposit made to Treasury and the remittance sent to OPM, and obtain an explanation and examine support for any differences. The funds should be deposited in the Treasury to the credit of the Civil Service Retirement and Disability Fund. See FAM 808.03, *Deposits into the Civil Service Retirement and Disability Fund.*		
8. If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude if noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if it was not previously identified during compliance control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through 72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
9. Document conclusions on compliance with each provision on Form 808, Compliance Summary.		

Note: If the entity outsources payroll processing, then the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more

complicated; however, the auditor should perform the same testing. The auditor may accomplish this testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AT-C 320 (SSAE 18). Another approach may be for the service organization's auditor to assist the entity's auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT-C 215 (see FAM 710, Agreed-Upon Procedures).

809 – Federal Employees Health Benefits Act (FEHBA), as provided in 5 U.S.C. Chapter 89

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees Health Benefits Act (FEHBA), as provided in 5 U.S.C. Chapter 89, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page FAM 802-9.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
809.01. BIWEEKLY CONTRIBUTIONS FOR EMPLOYEE HEALTH INSURANCE. Provision Type: Transaction-based. In general, for each full-time employee enrolled in a health insurance plan, a biweekly contribution shall be made by the entity[84] in an amount determined by OPM for each type of insurance plan.[85] 5 U.S.C. 8906(b)(1).	The amount of the entity contribution for health insurance benefits is calculated properly for employees who elect to enroll in a health insurance plan.	[Document the control activities that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 809 step 4 (b).

[84] The biweekly entity contribution for the employee shall not exceed 75 percent of the health insurance cost. 5 U.S.C. 8906(b)(2).

[85] For part-time career employees, the biweekly entity contribution shall be calculated on a pro rata basis based on the ratio of number of scheduled part-time hours to the number of scheduled regular hours for an employee serving full-time in a comparable position. 5 U.S.C. 8906(b)(3).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
809.02. PAYMENT SOURCE FOR ENTITY'S EMPLOYEE HEALTH INSURANCE CONTRIBUTIONS. Provision Types: Transaction-based and quantitative-based. For employees generally, the entity contribution for the cost of health insurance shall be paid from the appropriation account or fund that is used to pay the employee. 5 U.S.C. 8906(f)(1).	Entity contributions for the cost of employee health insurance are summarized properly and charged to the proper appropriation account or fund.				See Compliance Audit Procedures, FAM 809 step 4 (c).
809.03. EMPLOYEE PAY WITHHOLDINGS FOR HEALTH INSURANCE. Provision Type: Transaction-based. An amount shall be withheld from the employee's pay to cover the total cost of enrollment in the health insurance plan selected by the employee after the amount of the entity contribution is subtracted. 5 U.S.C. 8906(d).	Withholdings are made for the employee's share of the cost of health insurance and are calculated properly.				See Compliance Audit Procedures, FAM 809 step 4 (a).
809.04. DEPOSITS INTO THE EMPLOYEES HEALTH BENEFITS FUND. Provision Types: Procedural-based and quantitative-based. Amounts withheld from employees' pay and the sum contributed by the entity for health insurance costs shall be deposited into the Treasury to the credit of the Employees Health Benefits Fund. 5 U.S.C. 8909(a).	Withholdings from employees' pay and entity contributions for health insurance costs are properly summarized and deposited into the Treasury to the credit of the Employees Health Benefits Fund.				See Compliance Audit Procedures, FAM 809 steps 5 and 6.

Note: The auditor may complete these procedures or prepare equivalent documentation only if provisions of the Federal Employees Health Benefits Act (FEHBA), as provided in 5 U.S.C. Chapter 89, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-9. These procedures test compliance with the provisions listed on the Compliance Summary.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Audit procedures	Done by/date	Doc. ref.
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 809, Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period. The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02. Document the sampling approach using FAM 495 E, *Sampling*.[86] The auditor should coordinate these tests with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for OPM, per OMB audit guidance, if performed. Sample size _____ Sample selection method _____		
2. For each selection made in step 1, document the employee, the pay period selected, and the amount withheld for the pay period selected, if any, for the cost of health insurance. If available, document the health insurance plan enrollment code.		

[86] If the auditor uses multipurpose testing for the compliance test and/or compliance control test and a substantive test of payroll expense details, then the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Audit procedures	Done by/date	Doc. ref.
3. For each selection made in step 1, obtain the employee's personnel file and note whether the employee elected health insurance coverage for the period to which payroll disbursement relates. Such coverage should be indicated on OPM form SF 2809 or other automated enrollment process. If the employee did not elect health insurance coverage, then ask why amounts are being withheld for the cost of insurance and determine whether any entity contributions are being made inappropriately as well.		
4. If the employee identified in step 3 elected coverage, then perform the following steps: (a) Obtain the schedule of health insurance costs for all plans published by OPM. Using the enrollment code for the plan selected by the employee on OPM form SF 2809 or other automated enrollment process, calculate the employee's portion of the health insurance cost and document it. Compare it to the amount actually withheld for the selected pay period, and obtain an explanation and examine support for any differences. See FAM 809.03, *Employee Pay Withholdings for Health Insurance.*		
(b) For each employee in (a), determine the appropriate amount of the entity's contribution for its share of health insurance costs by using the OPM schedule of costs. Compare it to the amount actually contributed by the entity for the employee's health insurance for the selected pay period and obtain an explanation and examine support for any differences. See FAM 809.01, *Biweekly Contributions For Employee Health Insurance.*		

Audit procedures	Done by/date	Doc. ref.
(c) For each employee in (b), determine if amounts contributed by the entity are charged to the appropriation account or fund that is used to pay the employee for the selected pay period by performing the following procedures: (1) Review the accounting codes indicated in the supporting documentation. (2) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree with those recorded in the budgetary accounting records. (This step assumes that other payroll testing would have included checking that the codes represent the proper appropriation account or fund.)		
(3) Consider the procedures performed on the entity's budget controls over summarization of expenditure balances, as discussed in FAM 395 F, *Budget Control Objectives*. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarization of expenditure balances, then further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account or fund. If the auditor has assessed the controls as ineffective, then the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances, as described in FAM 495 B, *Example Procedures for Tests of Budget Information.* See FAM 809.02, *Payment Source for Entity's Employee Health Insurance Contributions.*		

Audit procedures	Done by/date	Doc. ref.
5. Determine whether the entity has effective controls over the proper summarization of the amounts withheld from employees for health insurance costs under this law and the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, then test the summarization of the totals that include the items selected for testing in step 1.		
6. Compare the total cost of health insurance on the entity's records (employee and employer portions) for the selected pay period to the deposit made into the Treasury and the documentation sent to OPM, and obtain an explanation and examine support for any differences. The funds should be deposited into the Treasury to the credit of the Employees Health Benefits Fund. See FAM 809.04, *Deposits into the Employees Health Benefits Fund.*		
7. If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude on whether noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if it was not previously identified during compliance control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .672); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
8. Document conclusions on compliance with each provision on Form 809, Compliance Summary.		

Note: If the entity outsources payroll processing, then the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more

complicated; however, the auditor should perform the same testing. The auditor may accomplish this testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AT-C 320 (SSAE 18). Another approach may be for the service organization's auditor to assist the entity's auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT-C 215 (see FAM 710, Agreed-Upon Procedures).

810 – Federal Employees' Compensation Act (FECA), as provided in 5 U.S.C. Chapter 81

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees' Compensation Act (FECA), as provided in 5 U.S.C. Chapter 81, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-10.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
810.01. EMPLOYEES' COMPENSATION FUND COSTS AND ANNUAL BUDGET REQUEST. Provision Type: Procedural-based If the entity is funded by annual appropriations and receives a statement showing the costs of amounts paid from the Employees' Compensation Fund (the Fund),[87] then the entity shall include a request for an appropriation to cover such amounts when submitting its budget request during the next fiscal year.[88] 5 U.S.C. 8147(b).	The entity's budget request includes a request for an appropriation for any amounts paid by the Fund on the entity's behalf for the prior fiscal year.	[Document the control activities that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documentation.]	[Indicate yes or no; include reference to supporting documentation.] See Compliance Audit Procedures, FAM 810 step 1.

[87] Under FECA, the Employees' Compensation Fund is available without fiscal year limitation to the U.S. Government to make compensation payments for the disability or death of an employee resulting from personal injury sustained while in the performance of the employee's duty, unless a statutory exception applies. 5 U.S.C. 8102(a) and 8147(a).

[88] By August 15 of each year, the Secretary of Labor is required to provide the entity a statement showing the total cost of benefits and other payments made from the Employees' Compensation Fund during the preceding July 1 through June 30 expense period on account of the injury or death of employees or individuals under the jurisdiction of the entity. 5 U.S.C. 8147(b).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
810.02. DEPOSITING FUNDS INTO THE EMPLOYEES' COMPENSATION FUND. Provision Type: Procedural-based. Amounts appropriated pursuant to the request (described in 810.01 above) shall be deposited into the Treasury to the credit of the Fund within 30 days of their availability. 5 U.S.C. 8147(b). If, however, the entity does not receive annual appropriations and receives a statement showing the costs of amounts paid from the Fund on the entity's behalf, then the entity shall make the required deposit into the Treasury to the credit of the Fund from funds under its control during the first 15 days of October after it receives the Fund cost statement. 5 U.S.C. 8147(b).	2a. For an entity funded by annual appropriations, the appropriations received for the costs of amounts paid out of the Fund on behalf of the entity are credited to the Fund within 30 days of their availability. 2b. For an entity not funded by annual appropriations, the entity makes the required deposit to the credit of the Fund during the first 15 days of October after it receives the Fund cost statement.				See Compliance Audit Procedures, FAM 810 step 1.

Note: The auditor may complete these procedures or prepare equivalent documentation only if provisions of the Federal Employees' Compensation Act (FECA), as provided in 5 U.S.C. Chapter 81, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-10. These procedures test compliance with the provisions listed on the Compliance Summary for this law.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Audit procedures	**Done by/date**	**Doc. ref.**
Note: The provisions identified for testing are procedural-based provisions. As discussed in FAM 460.06, the auditor usually performs sufficient procedures in conjunction with tests of compliance controls for these procedural-based provisions to conclude on the entity's compliance without performing additional procedures. The auditor should not perform additional procedures to obtain evidence regarding compliance with the provisions related to the following objectives unless sufficient evidence regarding compliance was not obtained during compliance control tests documented on Form 810, Compliance Summary.		
1. Reference to conclusions on compliance controls on Form 810, Compliance Summary, and indicate whether any additional procedures are necessary.		
2. If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude on whether noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if it was not previously identified during compliance control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
3. Document conclusions on compliance with each provision on Form 810, Compliance Summary.		

811 – Federal Employees' Retirement System Act (FERSA), as provided in 5 U.S.C. Chapter 84

Note: The auditor may complete this compliance summary or prepare equivalent documentation only if provisions of the Federal Employees' Retirement System Act (FERSA), as provided in 5 U.S.C. Chapter 84, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-10. Implementing regulations for FERSA's general administration are included in 5 C.F.R. Part 841.

Compliance Summary

Name of entity: (list)

Prepared by: (list)

Audit period: (list)

Reviewed by: (list)

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
811.01. ENTITY WITHHOLDINGS FROM EMPLOYEE PAY FOR RETIREMENT BENEFITS. Provision Type: Transaction-based. For each employee[89] employed after December 31, 1983,[90] the entity shall withhold a percentage of the employee's basic pay (typically 0.80% of basic pay).[91] 5 U.S.C. 8422(a)(1).	The appropriate amount is withheld from employee's pay. (See footnotes 61 through 63 below.)	[Document the control techniques that the entity used to achieve the objective.]	[Does control depend on computer processing?]	[Indicate yes or no; include reference to supporting documents.]	[Indicate yes or no; include reference to supporting documents.] See Compliance Audit Procedures, FAM 811 step 4 (b).

[89] For who qualifies as an employee for purposes of FERSA, see 5 U.S.C. 8401(11).

[90] Employees may be covered by the Civil Service Retirement Act (CSRA) or the Federal Employees' Retirement System Act (FERSA), generally depending on their employment dates. Generally, employees hired after January 1, 1984, are subject to FERSA.

[91] For most employees, the percentage to be withheld is 0.8 percent (7 percent minus the Social Security tax rate imposed by the Internal Revenue Code, 26 U.S.C. 3101(a)). For congressional employees; Members of the Congress; and law enforcement officers, firefighters, air traffic controllers, and nuclear materials couriers, the withholding rates are higher. See 5 U.S.C. 8422(a)(1).

Provision Description	Objective	Control Activities	IS (Y/N)	Effective controls?	Instances of noncompliance?
811.02. ENTITY CONTRIBUTIONS FOR EMPLOYEE RETIREMENT BENEFITS. Provision Types: Transaction-based and quantitative-based. The entity shall contribute an amount equal to the employing entity's applicable normal-cost percentage[92] multiplied by the employee's aggregate amount of basic pay payable by the entity. 5 U.S.C. 8423(a)(1). For most employees, the entity contribution shall be paid from the appropriation account or fund used to pay the employee. 5 U.S.C. 8423(a)(3).	The entity contribution for employee retirement is calculated properly, summarized properly, and charged to the proper appropriation account or fund. (See footnote 64 below.)				See Compliance Audit Procedures, FAM 811 steps 4 (c) and 5.
811.03. DEPOSITS INTO THE CIVIL SERVICE RETIREMENT AND DISABILITY FUND. Provision Types: Procedural-based and quantitative-based. Amounts withheld from employees and the sum contributed by the entity for retirement benefits shall be deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund.[93] 5 U.S.C. 8422(c).	Withholdings from employees and entity contributions for retirement benefits are properly summarized and deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund.				See Compliance Audit Procedures, FAM 811 steps 6 and 7.

[92] The Office of Personnel Management (OPM) computes the normal-cost percentage, which is statutorily defined at 5 U.S.C. 8401(23). For example, for fiscal year 2017, it is 14.7 percent of basic pay for most employees. OPM lists the percentages in its Benefits Administration Letters related to "Cost Factors for Calculating Imputed Costs," which is accessible on its website, at http://www.opm.gov/retirement-services/publications-forms/benefits-administration-letters/.

[93] The Civil Service Retirement and Disability Fund is the fund established under 5 U.S.C. 8348 that is available for the payment of employee benefits (primarily retirement) under chapters 83 and 84 of Title 5, U.S. Code, and for specified administrative expenses incurred by Office of Personnel Management (OPM) or the Merit Systems Protection Board. 5 U.S.C. 8401(6).

Note: The auditor may complete these procedures or prepare equivalent documentation only if provisions of the Federal Employees' Retirement System Act (FERSA), as provided in 5 U.S.C. Chapter 84, are significant, as indicated on Form 802, General Compliance Checklist, at FAM 802.07 at page 802-10. These procedures are designed to test compliance with the provisions listed on the Compliance Summary. Implementing regulations for FERSA's general administration are included in 5 C.F.R. Part 841.

Name of entity: _____
Audit period: _____
Reviewed by: _____

Audit procedures	Done by/date	Doc. ref.
1. Based on the preliminary assessment of compliance control effectiveness (as documented on Form 811, Compliance Summary), select a sample of expense amounts for individuals' gross pay from the payroll disbursement records for the audit period for employees covered by the Federal Employees Retirement System (FERS) established pursuant to FERSA. See FAM 811.01, *Entity Withholdings from Employee Pay for Retirement Benefits.* The sample size will vary based on the expected effectiveness of compliance controls, as discussed in FAM 460.02. Document the sampling approach using FAM 495 E, *Sampling*.[94] The auditor should coordinate these tests with other tests of payroll-related expenses and with the agreed-upon procedures agency auditors perform for OPM, per OMB audit guidance, if performed. Sample size _____ Sample selection method _____		

[94] If the auditor uses multipurpose testing for the compliance test and/or compliance control test and a substantive test of payroll expense details, then the sample items for the compliance test and/or compliance control test should be selected using the sampling method used for the substantive test. Otherwise, the auditor should select items using attribute sampling, as discussed in FAM 460.02.

As with all sampling applications, the auditor should consider the completeness of the test population. For efficiency, the auditor should consider using records that were tested for validity and completeness (as well as the other financial statement assertions) in conjunction with substantive tests of payroll or other payroll related compliance tests.

Audit procedures	Done by/date	Doc. ref.
2. For each selection made in 1, document the following for the pay period selected: • the amount withheld for the cost of retirement benefits; • the amount of basic pay; and • if indicated in the payroll disbursement records, the retirement plan under which the withholdings were made (the Civil Service Retirement System (CSRS) or FERS). (Only employees covered by FERS should be included in this compliance test. See FAM 808 for the CSRS compliance test.)		
3. For each item selected in 1, obtain the employee's personnel file and note the • employee hire date, • amount of basic pay, and • retirement plan under which the employee is covered.		
4. For each selection made in 1, complete the following: (a) Compare the amount of basic pay indicated in the employee's personnel file with the amount indicated in the payroll records, and obtain an explanation and examine support for any differences. (This procedure would be performed only if it were not already performed as part of other testing.)		
(b) Calculate the amount of the withholdings for retirement costs based on 0.8% of basic pay for most employees for the selected pay period and document the amount. Compare to the actual amount withheld for the selected pay period, and obtain an explanation and examine support for any differences. See FAM 811.01, *Entity Withholdings from Employee Pay for Retirement Benefits.*		

Audit procedures	Done by/date	Doc. ref.
(c) Determine whether the entity contributed the correct amount for the employee's retirement for the selected pay period. Obtain an explanation and examine support for any differences between the entity contributions and the amount calculated using OPM's normal-cost percentage. See FAM 811.02, *Entity Contributions for Employee Retirement Benefits.*		
5. To determine if amounts contributed by the entity are charged to the appropriation account or fund used to pay the employee for the selected pay period, complete the following: (a) Review the accounting codes indicated on the supporting documentation. (b) Determine whether the accounting codes used to record the entity contribution are the same as those used for the related payroll expenditure and whether the codes and amounts agree to those recorded in the budgetary accounting records. (This step assumes other payroll testing would have included checking that the codes represent the proper appropriation account.) (c) Consider the procedures performed on the entity's budget controls over summarizing expenditure balances, as discussed in FAM 395 F, *Budget Control Objectives*. If the auditor has assessed the entity's controls as effective in achieving the control objective of summarizing expenditure balances, then further procedures are not necessary to obtain assurance as to whether the entity's contributions are paid out of the proper appropriation account. If the auditor has assessed the controls as ineffective, then the auditor should perform procedures to determine whether the entity has properly summarized the expenditure balances, as described in FAM 495 B, *Example Procedures for Tests of Budget Information.* See FAM 811.02, *Entity Contributions for Employee Retirement Benefits.*		

Audit procedures	Done by/date	Doc. ref.
6. Determine whether the entity has effective controls over the proper summarization of the amounts withheld from employees for retirement costs under this law and the entity contributions for remittance to Treasury. If the entity does not have effective controls for summarization, then test the summarization of the totals that include the items selected for testing in step 1.		
7. Compare the combined totals of employee withholdings and entity contributions that include each selection made in step 1 to the deposit made to Treasury and the remittance sent to OPM, and obtain explanation and examine support for any differences. The funds should be deposited into the Treasury to the credit of the Civil Service Retirement and Disability Fund. See FAM 811.03, *Deposits into the Civil Service Retirement and Disability Fund.*		
8. If the entity does not appear to be in compliance based on the results of tests performed, then the auditor should discuss these matters with OGC and, when appropriate, the Special Investigator Unit to conclude on whether noncompliance actually has occurred and the implications of such noncompliance. For any noncompliance noted, the auditor should • identify the weakness in compliance controls that allowed the noncompliance to occur, if it was not previously identified during compliance control testing; • determine the impact on the report on internal control as appropriate (see FAM 580.27 through .72); • consider the implications of any instances of noncompliance on the financial statements; and • report instances of noncompliance, as appropriate (see FAM 580.82 through .83).		
9. Document conclusions on compliance with each provision on Form 811, Compliance Summary.		

Note: If the entity outsources payroll processing, then the entity remains responsible for compliance. Dividing responsibility for payroll processing activities between the entity and the service organization could make payroll testing more

complicated; however, the same testing should be performed. The auditor may accomplish that testing with the assistance of the service organization's auditor, who may issue an internal control report on the service organization under AT-C 320 (SSAE 18). Another approach may be for the service organization's auditor to assist the entity's auditor by performing agreed-upon procedures at the service organization (e.g., substantive testing) under AT-C 215 (see FAM 710, Agreed-Upon Procedures).

SECTION 900

Substantive Testing Implementation Guidance

Contents – Substantive Testing Implementation Guidance

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902 – Intragovernmental Activity and Balances

.17 This section provides guidance on the procedures that the auditor should perform with respect to intragovernmental activity (i.e., costs and revenues) and balances (i.e., assets and liabilities). The U.S. government in its entirety is an economic entity and federal entities are components of that entity. Therefore, transactions between federal entities are considered intragovernmental. Within the U.S. government, many federal entities rely on other federal entities to help them achieve their missions and fulfill their operating objectives. These arrangements may be voluntary, stipulated by law, or established by mutual agreement of the entities involved. Note that General Fund activity and balances are intragovernmental and are therefore addressed in FAM 902.

In many cases, the entity receiving goods or services reimburses the providing entity in accordance with an agreed-upon price, which may or may not represent fair value. However, frequently one entity provides goods or services to another entity free of charge (without reimbursement), and the cost of such activity is paid with the providing entity's appropriated funds. For example, the General Services Administration routinely provides property management services and contract award and administration services to other entities without charge.

.18 Intragovernmental amounts represent activity and balances both *within* a federal entity and *between* federal entities. "Intra-entity" amounts are intragovernmental activity and balances within a federal entity (any federal agency, department, administration, or government corporation that is not part of a larger financial reporting entity other than the government as a whole). Inter-entity amounts are intragovernmental activity and balances between two federal entities that are trading partners. Intra-entity amounts and inter-entity amounts constitute intragovernmental activity and balances.

Although the FASAB has used various terms for intragovernmental amounts, FASAB has predominately used "intra-entity" and "inter-entity" (as defined above), including in key intragovernmental pronouncements.[95] In addition, OMB Circular No. A-136, *Financial Reporting Requirements*, uses "intra-entity" and "inter-entity." In line with FASAB and OMB, the FAM uses "intra-entity" and "inter-entity" to refer to the two types of intragovernmental amounts.

Inter-entity intragovernmental differences also have specific terminology. These differences occur when federal trading partners do not record the same transaction in the same time period for the same amount. Differences, if unresolved, are errors in the U.S. government's consolidated financial statements. Therefore, differences need to be *reconciled* with trading partners and then *resolved*. Intragovernmental differences terms follow:

- Reconciliation
    - **Reconciled difference**: the reason for the difference and its dollar amount is known and identified.

[95]See SFFAS 4, Managerial Cost Accounting Concepts and Standards; SFFAS 30, Inter-Entity Cost Implementation: Amending SFFAS 4; and Technical Release No. 8, Clarification of Standards Relating to Inter-Entity Costs. Although the Interpretation of Federal Financial Accounting Standards 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No.4, uses alternative terms for intra-entity and inter-entity (i.e., "intra-departmental" and "inter-departmental"), they are only used for Interpretation No. 6.

  - **Unreconciled difference**: the reason for the difference and its dollar amount is not known and identified.

- Resolution
  - **Resolved difference**: the difference is reconciled and an adjustment was made to accounting records resulting in the difference no longer existing.
  - **Unresolved difference**: a difference is reconciled; however, no adjustment was made to accounting records resulting in the difference continuing to exist.

.19 Common examples of intragovernmental activity include the following:

- Goods and services provided from one federal entity to another (trade transactions).
- Transfers between entities based on statutory authority (including transfers pursuant to agreements authorized by statute), expended appropriations, taxes and fees collected, collections for others, accounts receivable from appropriations, transfers payable, and custodial revenue.
- Investments in federal securities issued by Treasury's Bureau of the Fiscal Service (Fiscal Service), including interest accruals, interest income and expense, and amortization of premiums and discounts.
- Borrowings from Fiscal Service and the Federal Financing Bank, including interest accruals, interest income, and expenses.
- Costs of litigation paid by the Treasury Judgment Fund.[96]
- Transactions with the Office of Personnel Management (OPM) relating to employee benefit programs, such as the Federal Employees' Retirement System, Civil Service Retirement System, and federal employees' life insurance and health benefits programs, that include routine payments, imputed financing, and accruals.
- Transactions with the Department of Labor relating to the Federal Employees' Compensation Act (FECA) that include routine payments to the department.

.20 Intra-entity activity and balances (within the same entity) are eliminated at the entity's consolidated financial statements level. Inter-entity activity and balances (between federal entities) are eliminated at the U.S. government's consolidated financial statements level.

Accounting and Reporting Guidance

.21 In accounting for and reporting intragovernmental activity and balances, see FASAB accounting standards; OMB reporting guidance contained in OMB Circular No. A-136; and Treasury accounting and reporting guidance contained in the *Treasury Financial Manual* (TFM), volume 1, part 2, chapter 4700 (TFM 2-

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

4700), *Agency Reporting Requirements for the Financial Report of the United States Government*. FAM 902.06 through .08 illustrates these relevant documents in more detail.

.22 SFFAS 4 and related interpretations address the accounting standards for inter-entity cost activity. SFFAS 5, *Accounting for Liabilities of the Federal Government*, addresses inter-entity liabilities, including federal debt, pensions, and retirement benefits. Also, SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended, addresses inter-entity revenue and requires disclosure of the nature of intragovernmental exchange transactions in which an entity provides goods or services at a price less than full cost or does not charge a price at all.

In accordance with SFFAS 4, as amended by SFFAS 30, effective for periods beginning after September 30, 2008, the costs of program outputs include the costs of services provided by other entities regardless of whether the providing entity is fully reimbursed. Additionally, each entity's full cost should include the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of services either through billing or other means. The reporting entities are also to consult with the funding and administering agencies, such as OPM, for information needed to properly record inter-entity costs. SFFAS 4 directs OMB to designate the costs of goods and services received from other entities that are to be recognized and to issue guidance identifying these costs.[97]

Inter-entity costs are further discussed in FASAB's Interpretation of Federal Financial Accounting Standards No. 6 and Technical Release No. 8, *Clarification of Standards Relating to Inter-Entity Costs*.

.23 OMB Circular No. A-136 states that federal entities are to do the following:

- Report intragovernmental assets separately from transactions with nonfederal entities (entities outside the federal government) on the balance sheet, disclose intragovernmental assets separately from other nonentity assets, identify intragovernmental liabilities covered by budgetary resources and those not covered by budgetary resources (such as accrued annual leave), and separately report intragovernmental liabilities.
- Disclose intragovernmental costs and revenue transactions separately from those made with the public and describe the criteria used for the cost/revenue classification. Disclosure is to include an explanation that makes it clear to the reader that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue.

[97] In accordance with OMB Circular No. A-136, examples of unreimbursed costs that reporting entities are required to recognize include (but are not limited to) (1) employees' pension and postretirement health and life insurance benefits; (2) other postemployment benefits for retired, terminated, and inactive employees, which includes unemployment and workers compensation under the Federal Employees' Compensation Act (5 U.S.C. ch. 81); and (3) losses in litigation proceedings (see FASAB Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*). In the case of employee benefits, the imputed amount is the difference between employer/employee contributions and the total cost of a benefit.

- Reconcile intragovernmental balances and transactions and resolve resulting differences throughout the year and at least quarterly and submit intragovernmental balance information in the year-end closing package.[98]

.24 TFM 2-4700[99], primarily appendix 10 ("Intragovernmental Transaction Guide"), provides extensive, detailed information on how federal entities are to properly account for, report, and reconcile intragovernmental activity and balances (and resolve intragovernmental differences). The TFM has various requirements for federal entities, including to do the following:

- Use the *United States Standard General Ledger* (USSGL) account attributes and domains to indicate the nature of account balances and to identify intragovernmental transactions. For example, the federal (i.e., intragovernmental) "F" attribute used in conjunction with USSGL account data in the closing package enables Fiscal Service to prepare elimination entries for the government-wide financial statements.
- Add trading partner information to each USSGL account sent to Treasury when the USSGL account has the federal attribute "F."[100]
- Perform various actions throughout the year, including reporting intragovernmental data to Treasury, providing explanations to Treasury for the entities' inter-entity intragovernmental differences, and working with trading partners to resolve differences.

In addition to requirements, the TFM includes instructions for fulfilling requirements, including instructions for

- addressing recurring intragovernmental differences by identifying root causes and implementing corrective action plans to resolve the root causes,
- submitting intragovernmental differences to Treasury's dispute resolution process when entities cannot resolve intragovernmental differences with trading partners, and
- submitting year-end information to Treasury for inclusion in the U.S. government's consolidated financial statements.

The TFM also includes various aids, including

- an appendix dedicated to explaining the proper recording of intragovernmental transactions with the General Fund;
- crosswalks indicating how the entities' year-end information (which is submitted to Treasury) is reported in the U.S. government's consolidated financial statements; and
- various tables listing federal entity identification codes, types of transactions per reciprocal category, and USSGL accounts per reciprocal category.[101]

[98]The closing package comprises data submitted by significant entities for inclusion in the U.S. government's consolidated financial statements.

[99]The TFM is available at http://www.fiscal.treasury.gov/fsindex.htm.

[100]Trading partners are federal agencies, departments, or entities participating in transactions with each other.

[101]Reciprocal accounts are offsetting USSGL accounts used by inter-entity trading partners to record transactions (e.g., a seller's receivable account and a buyer's corresponding payable account). Treasury groups these USSGL accounts into "reciprocal categories," which Treasury uses to help manage intragovernmental transactions, including calculating intragovernmental

.25 To emphasize entity management's responsibility for identifying intragovernmental transactions and balances and resolving inter-entity differences, intragovernmental representations are included in two year-end representations: (i) the management representation letter (which is provided for the audits of the entity's general-purpose financial statements and closing package) and (ii) the CFO intragovernmental representations form (which is provided to the entity's inspector general, Fiscal Service, and GAO).

The management representation letter includes both intragovernmental and non-intragovernmental representations. The intragovernmental representations include those for intra-entity intragovernmental eliminations, proper accounting and disclosure of transactions, and resolution (or inability to resolve) of inter-entity intragovernmental transactions with trading partners (see FAM 1001). Note that if such disclosure is included but the auditor believes that it is not supported by management, the auditor should assess the effect of the inadequate disclosure on the auditor's opinion.

The CFO intragovernmental representation form includes only intragovernmental representations and includes those for the consistency with source documents the information the entity submits to Treasury, inter-entity intragovernmental activity and balances with specific trading partners, the independent auditor's proposed adjustments, and the CFO's monitoring of inter-entity intragovernmental differences throughout the year.

Continuing Issues from Prior-Year Audits

.26 Since fiscal year 1997, the first year the U.S. government's consolidated financial statements were audited, the federal government has been unable to adequately account for and reconcile intragovernmental activity and balances between federal entities. This has resulted in a material weakness at the U.S. government consolidated financial statement level and is a major impediment to rendering an opinion on the U.S. government's accrual-based consolidated financial statements. At the consolidated level, intragovernmental amounts do not completely eliminate, resulting in an "unmatched transactions and balances" amount being reported on the Statement of Operations and Changes in Net Position in order to balance the accrual-based consolidated financial statements.[102]

Intragovernmental Payment and Collection (IPAC) System

.27 IPAC is the primary method most federal entities use to electronically bill and/or pay for services and supplies within the U.S. government. IPAC is used to communicate to Treasury and the trading partner agency that the online billing and/or payment for services and supplies has occurred. IPAC, however, is not intended to be a control over the intragovernmental transactions (reciprocal accounts). IPAC was not designed as an accounting system and does not require trading partners to record transactions at the same time or in the same amounts. In addition, unreconciled IPAC differences could affect the existence and completeness of intragovernmental activity and balances.

differences between trading partners, assisting entities in resolving differences, and at year-end eliminating intragovernmental amounts from the U.S. government's consolidated financial statements.

[102]An unmatched amount is also reported in the Statement of Net Cost; however, it is not reported as a separate line item.

.28 A federal entity initiates an IPAC transaction either as a collection or a payment. An IPAC customer entity receives an IPAC transaction either as a payment or a collection. Entities should establish procedures to reconcile intragovernmental transactions recorded in IPAC with their subsidiary ledger records.

.29 As for non-intragovernmental collections and payments, federal entities should record increases and decreases to their Fund Balance with Treasury (FBWT) accounts for IPAC collections and payments, respectively. IPAC information is reported to Treasury's Central Accounting Reporting System (CARS), which provides FBWT account statements and other reports to federal entities. Regular reconciliation of entity FBWT records with Treasury records is a key control; additional guidance for auditing FBWT is provided in FAM 921.

.30 The auditor should also design audit procedures to understand whether the entity uses other methods (e.g., electronic funds transfer, check, standard forms used to transfer funds between appropriations, credit cards, etc.) in addition to the IPAC system to process intragovernmental activity and balances. The auditor should determine whether these systems affect the accuracy of intragovernmental activity and balances. (See audit procedures below and FAM 902 C.)

Audit Procedures

The following are summary narrative descriptions of intragovernmental audit procedures. For examples of intragovernmental audit procedures, see FAM 902 C.

.31 The auditor should identify the risk of material misstatement in determining the nature, extent, and timing of control testing and substantive procedures for auditing intragovernmental activity and balances and evaluating the results of these procedures. The auditor should understand management's response to the risk of material misstatement. Throughout the audit, the auditor evaluates the possible existence of material intragovernmental activity and balances that could affect the financial statements. The auditor also evaluates information concerning material intragovernmental activity and balances to determine the adequacy and appropriateness of financial statement disclosures.

.32 The auditor should assess inherent, fraud, and control risk. The auditor evaluates several conditions to assess inherent risk related to intragovernmental activity and balances. For example, inherent risk may exist because of the nature of the intragovernmental activity, such as a significant volume or dollar amount of transactions, number of trading partners, or complexity of transactions.

.33 The auditor generally should determine an intragovernmental materiality benchmark. In determining the materiality benchmark, the auditor should decide how to handle significant intragovernmental balances (such as funds with the U.S. Treasury, U.S. Treasury securities, and inter-entity balances) and offsetting balances (such as future funding sources that offset certain liabilities and collections that are offset by transfers to other government entities) due to their levels of risk (see FAM 230.10).

.34 In gaining an understanding of the entity, including its internal control, the auditor should obtain an understanding of management responsibilities and the relationship of each component within the entity to the total entity (i.e., intra-entity

amounts) and of the entity to other federal entities (i.e., inter-entity amounts). This includes knowledge of

- the entity's trading partners;
- the nature of intragovernmental transactions that occur;
- the volume and dollar amount of transactions;
- management's attitude about and awareness of reconciliations of intragovernmental activity and balances and the resolution of intragovernmental differences with trading partners; and
- the entity's operations to identify, respond to, and resolve accounting and auditing problems.

.35 The auditor should obtain an understanding of the five general phases of intragovernmental operations performed throughout the year:

i. *Identify and properly record* intragovernmental activity and balances.

ii. *Reconcile* the entity's records of intragovernmental activity and balances to those reported by trading partners, identifying the reasons for the differences with their trading partners.

iii. *Resolve* intragovernmental differences (i.e., make adjustments so that the difference no longer exists) after appropriately researching the difference, and/or completing corrective actions that fixed the cause of the difference, or after Treasury issued a decision as part of its dispute resolution process, by either doing one or both of the following:

- recording an adjustment in the entity's accounting records or
- verifying that the trading partner recorded an adjustment in its accounting records.

iv. *Report* intragovernmental activity and balances to Treasury.

v. *Review* intragovernmental differences reported to the entity from Treasury for accuracy. These differences are then *reconciled* and *resolved* (see phases ii and iii above).

.36 The auditor should obtain an understanding of the two general phases of intragovernmental operations performed only at year-end:

i. *Eliminating* intra-entity intragovernmental amounts from the entity's consolidated financial statements.

ii. *Reporting* the entity's audited consolidated financial statement information to Treasury for inclusion in the U.S. government's consolidated financial statements (the entity's intra-entity and inter-entity intragovernmental amounts are eliminated).[103] This includes the closing package, which the auditor may cover in a separate audit plan.

.37 For all seven phases, the auditor should assess the design of control activities, and for control activities that have been implemented, test their operating

[103]There may be valid reasons to not eliminate certain intra-entity intragovernmental amounts from an entity's financial statements. In such instances, the entity should communicate with Treasury in order for any needed journal entries to be recorded for the U.S. government's consolidated financial statements.

effectiveness. This begins with the auditor identifying policies and procedures related to the entity's ability to record, process, summarize, and report intragovernmental activity and balances by trading partner (these policies and procedures should be compared for consistency to Treasury's requirements documented in TFM 2-4700). A good design emphasizes the importance of identifying and classifying intragovernmental transactions by trading partner when they are initiated and on all documentation thereafter. Without this initial identification, the entity's accounting system may not be able to adequately track intragovernmental activity and balances.

.38 Without proper and timely resolution of intragovernmental differences, differences in these account balances could materially affect the balances at both the entity level and government-wide level. When preparing the entity's consolidated financial statements, the entity eliminates intra-entity intragovernmental amounts. When preparing the U.S. government's consolidated financial statements, Treasury eliminates both intra-entity and inter-entity intragovernmental amounts. Because intragovernmental accounts could be significantly out of balance, entities and Treasury may not be able to eliminate intragovernmental amounts from the entities' and U.S. government's consolidated financial statements, respectively. Entities should perform timely reconciliations of these transactions with trading partners, as annual or quarterly reconciliations may not be sufficient to detect and resolve differences promptly.

.39 If the auditor determines that the entity's resolution control for intragovernmental transactions is not effectively designed and implemented, the auditor should consider the effect on the risk of material misstatement. Where intragovernmental transactions are or could be material, significant additional work is usually necessary to express an unmodified opinion. In cases where the auditor finds significant deficiencies or material weaknesses in the intragovernmental resolution control and no other mitigating controls exist, the auditor must disclose this in the report or opinion on internal controls (FAM 580).

.40 Since inadequate intragovernmental processes have been a long-standing material weakness at the U.S. government consolidated financial statement level, if there is evidence and a history of systemic or recurring problems in any of the intragovernmental phases in FAM 902.19 through .20, the auditor should consider performing additional testing procedures. These procedures should assist with identifying issues related to accounting for and eliminating intragovernmental activity and balances in both the entity's and the U.S. government's consolidated financial statements.

.41 The auditor may detect misstatements during testing of intragovernmental transactions (i.e., a transaction was recorded with an incorrect amount) and testing of the entity's resolution of inter-entity intragovernmental differences (i.e., the entity *reconciled* an intragovernmental difference, that is, determined its cause but did not yet *resolve* the difference; therefore, the difference still exists at year-end). The unresolved inter-entity intragovernmental differences are those for which the entity needs to adjust its accounting records and either

- the entity appropriately researched the difference and determine that it needs to adjust its accounting records (with which the trading partner concurred) or
- Fiscal Service, as part of its dispute resolution process, issued a decision in which the entity is to adjust its accounting records.

The auditor should record misstatements in the Schedule of Uncorrected Misstatements (see FAM 540 and FAM 595 C).

To avoid duplicate procedures, the auditor should consider other intragovernmental related work (including FBWT) when designing the tests for intragovernmental activity and balances. Examples of the line item risk analysis (LIRA), specific control evaluation (SCE), and audit procedures for the audit of intragovernmental activity and balances are in FAM 902 A, FAM 902 B, and FAM 902 C, respectively. Also see FAM 395 H and FAM 395 G for additional details regarding the LIRA and SCE, respectively. The LIRA(s), SCE(s), and audit procedures generally are customized by the auditor for the particular entity. For example, if the auditor determines that the intragovernmental accounts receivable line item is significant, the auditor generally should prepare separate LIRA(s), SCE(s), and audit procedures for the intragovernmental accounts receivable account and its related accounting applications. (Note that a single SCE for a line-item/account-related accounting application is presented. There are likely transaction-related accounting applications listed on the LIRA that also would have SCEs.) In addition, for efficiency, the auditor may coordinate tests of intragovernmental activity and balances with tests of nonfederal activity and balances.

902 A – Example Line Item Risk Analysis (LIRA) for Intragovernmental Accounts

ENTITY: XYZ Entity (XYZ)
DATE OF FINANCIAL STATEMENTS: 9/30/xx
LINE ITEM: Intragovernmental Accounts

LINE ITEM RISK ANALYSIS FORM
INDEX: _____

PREPARER _____
REVIEWER _____
DATE _____

PLANNING PHASE								INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions	Inherent Risk Factors	Fraud Risk Factors	Control Risk Factors	Mitigating Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Risk of Material Misstatement	Timing I/F	Nature & Extent	Audit Plan Testing Step
Name	Balance												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Intragovern-mental assets, liabilities, revenues, expenses	$###,###,###	Existence or occurrence	Inherent risk arises from (1) the nature of intragovernmen-tal transactions, which are sus-ceptible to misstatement because of the high volume of transactions, large dollar amounts, and large number of trading partners, and (2) prior years' significant adjustments relating to intra-governmental transactions.	No significant fraud risk factors identified.	Control risk arises from (1) prior years' material weaknesses in accounting and reporting where the entity was not able to timely resolve intragovern-mental differences and (2) man-agement's attitude in not timely resolving differences.	No mitigating factors identified	Revenue / receipts	Effective	Low	Low	I/F	Examine intragovernmental transactions to determine whether they are properly supported. Examine the reconciliation with trading partners and the resolution of intragovernmental differences to determine whether they are effectively monitored by management. Determine whether adjustments made to accounts to resolve differences are reviewed, proper, and timely. Review elimination entries and determine whether they were reviewed and by whom.	
							Revenue / accounts receivable	Effective					
							Expenses / disbursements	Effective					
							Expenses / accounts payable	Effective					

PLANNING PHASE								INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions	Inherent Risk Factors	Fraud Risk Factors	Control Risk Factors	Mitigating Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Risk of Material Misstatement	Timing I/F	Nature & Extent	Audit Plan Testing Step
Name	Balance												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		Completeness	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Effective	Low	Low	I/F	Same as existence above. Examine interagency agreements and resulting transactions to determine whether they are properly recorded in the general ledger. Test cutoff: search for unrecorded transactions (e.g., review transactions after year-end to see if they were recorded in the correct fiscal year).	
		Accuracy / valuation	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Effective	Low	Moderate	I/F	Same as existence above.	
		Rights and obligations	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Effective	Low	Low	I/F	Same as existence above. Review agreements between trading partners. Review representation letters to see if obligations are properly disclosed.	
		Presentation and disclosure	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Same as existence above.	Effective	Low	Low	F	Determine whether the entity appropriately classifies, summarizes, and discloses intragovernmental accounts in financial statements and whether related disclosures are in accordance with Federal Accounting Standards Advisory Board, Office of Management and Budget, and Department of the Treasury guidance.	
Line Item Total	$###,###,###												

902 B – Example Specific Control Evaluation (SCE) for Intragovernmental Accounts

Entity: XYZ Agency (XYZ) Date of Financial Statements: 9/30/xx Accounting Application: Intragovernmental Accounts	**SPECIFIC CONTROL EVALUATION** **FILE: _____**	DESIGN PHASE SIGN-OFFS Preparer: Primary Review: Information Systems Review:[1]	TESTING PHASE SIGN-OFFS Preparer: Primary Review:

SPECIFIC CONTROL EVALUATION: INTRAGOVERNMENTAL ACCOUNTS

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Existence or occurrence	Existence or occurrence	Existence or occurrence	Existence: 1. Recorded intragovernmental assets and liabilities do not exist at a given date.	1a. Recorded intragovernmental assets and liabilities exist at a given date.	1a1. Quarterly, intragovernmental balances recorded in the entity's general ledgers are confirmed and reconciled with trading partners.	M	Y		Y	Y	
					1a2. The entity and trading partners work together to resolve intragovernmental differences.						
					1a3. Resolution adjustments and supporting documents are reviewed and approved by authorized personnel before being entered in the general ledgers.						

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
					1a4. Reconciliation between intragovernmental general ledger balances and subsidiary ledger balances are performed quarterly and reviewed by supervisory personnel.						
				1b. Recorded intragov-ernmental assets and liabilities of the entity, at a given date, are supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1b1. Same as 1a. above.	M	Y		Y	Y	
					1b2. Transaction logs and detailed records of transactions are maintained to facilitate the reconciliation process and to provide sufficient information on the location of the supporting documents.						
				1c. Access to intragovernmental assets, critical forms, records, and systems and storage areas are permitted only in accordance with laws, regulations, and management's policy.	1c1. Protection provided by system safeguards (passwords, permissions provided based on need, and separation of duties) and physical safeguards (safes and locks, guards, cameras, and alarm systems).	B	Y		Y	Y	
					1c2. Changes made to the trading partner codes file are restricted to authorized accounting personnel.						
Completeness	Completeness	Completeness	Account completeness								
			2. Intragovernmental assets and	2. All intragovernmental accounts that belong	2a. Same as existence above.	M	Y		Y	Y	

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			liabilities of the entity exist but are omitted from the financial statements	in the financial statements are included. There should be no undisclosed assets or liabilities.	2b. Employees review all transactions to identify and properly code intragovernmental transactions.						
					2c. Employees reconcile and resolve Intragovernmen-tal Payment and Collection (IPAC) differences (and differences from other systems / methods, if any, used to process intragovernmental transactions) promptly and record adjustments properly.						
					2d. Supervisory personnel review and approve monthly account analyses of intragov-ernmental accounts and examine budget-to-actual and trend analyses.						
					2e. Elimination journal entries and supporting documentation are reviewed and approved by authorized personnel.						
					2f. Elimination entries are supported by schedules summarizing the SGL accounts that are combined to total the amounts eliminated.						
Accuracy /	Valuation	Valuation	Valuation								

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
valuation			3. Intragovernmental assets and liabilities included in the financial statements are valued on an inappropriate basis.	3. Intragovernmental assets and liabilities included in the financial statements are valued on appropriate valuation bases.	3a. Same as existence and completeness above.	M	Y		Y	Y	
					3b. Employees periodically evaluate the condition and marketability of intragovernmental assets, for example, receivables are evaluated for collectability.						
			Measurement: 4. Intragovernmental revenues and expenses included in the financial statements are measured improperly.	4. Intragovernmental revenues and expenses included in the financial statements are properly measured.	4. Same as existence and completeness above.	M	Y		Y	Y	
Rights and obligations	Rights and obligations	Rights and obligations	Ownership: 5. Recorded intragovernmental assets are owned by others because of sales or other contractual arrangements.	5. Recorded intragovernmental assets are owned by the entity.	5. Same as existence and completeness above.	M	Y		Y	Y	
			Rights: 6. The entity does not have certain rights to recorded intragovernmental assets because of certain restrictions.	6. The entity has rights to intragovernmental assets at a given date.	6. Same as existence and completeness above.	M	Y		Y	Y	
			Obligations:								

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			7. The entity does not have an obligation for recorded intra-governmental liabilities at a given date.	7. Intragovernmental liabilities are the entity's obligations at a given date.	7. Same as existence and completeness above.	M	Y		Y	Y	
Presentation and disclosure	Presentation and disclosure	Presentation and disclosure	Account classification: 8. Intragovernmental accounts are not properly classified and described in the financial statements.	8. Intragovernmental accounts are properly classified and described in the financial statements.	8a. Employees use trading partner codes to identify and track trading partners when the intragovern-mental transactions are initiated and on all documentation thereafter.	M	Y		Y	Y	
					8b. Employees use USSGL account attributes to identify the nature of account balances and to identify intragovernmental transactions by trading partner.						
					8c. Chief Financial Officer (CFO) staff classify, summarize, and report intragovernmental accounts by trading partner and present them in the notes to the closing package financial statements.						

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
					8d. CFO staff check that the intragovernmental asset and liability categories reported as notes in the closing package financial statements agree with the intragovernmental asset and liability line items reported on the balance sheet.						
			Consistency: 9. The financial statement components are based on accounting principles different from those used in prior periods.	9. The financial statement components are based on accounting principles that are applied consistently from period to period.	9a. Employees track changes in applicable accounting principles and requirements.	M	Y		Y	Y	
					9b. Employees have the appropriate education, training, and resources to help ensure the consistent application of accounting principles.						
			Disclosure: 10. Required information is not disclosed in the financial statements or in the notes thereto.	10. The financial statements or notes contain all information required to be disclosed.	10. Employees consult applicable (Office of Management and Budget (OMB), Department of the Treasury, and GAO) guidance and then verify that the disclosure complies with requirements.	M	Y		Y	Y	

ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS[2]		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	INTERNAL CONTROL OBJECTIVES (ICO)	INTERNAL CONTROL ACTIVITIES (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
	Various	Various					Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[3]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)

Preparation Notes:

[1]The IS specialist documents review of the Type of Internal Control Activity (column 7).

[2]In this column, the auditor references the audit documentation supporting the conclusion.

[3]In this column, the auditor references the audit procedures in the detailed control testing audit plan (and information systems audit plan, as applicable) that were designed to test each effective control determined to be relevant. Such tests will involve inquiry, observation, inspection, or a combination thereof.

902 C – Example Audit Procedures for Intragovernmental Activity and Balances

Note: See FAM 902.02 for definitions of intragovernmental terms.

Step	**Procedures**	**Done by**	**Doc. Ref.**
I. PLANNING	Obtain an understanding of the entity and its operations, including its internal control, that are significant to intragovernmental activity and balances (FAM 220). 13) Inquire of entity management about the following: a) The relationship of each unit within the entity to the total entity and of the entity to other entities. b) The entity's operations to identify, respond to, and resolve intragovernmental problems. c) Its attitude and awareness with respect to reconciling its intragovernmental activity and balances to those of its trading partners, and resolving its intragovernmental differences with its trading partners. *d)* The five general phases of intragovernmental operations performed throughout the year: i) *identifying* and *recording* intragovernmental activity and balances;		

Step	Procedures	Done by	Doc. Ref.
	ii) *reconciling* the entity's records of intragovernmental activity and balances to those reported by trading partners, identifying the reasons for the differences; iii) *resolving* intragovernmental differences (i.e., make adjustments so that differences no longer exist) after appropriately researching the difference, and/or completing corrective actions that fixed the cause of the difference, or after Treasury issued a decision as part of its dispute resolution process, by doing one or both of the following: • recording an adjustment in the entity's accounting records or • verifying that the trading partner recorded an adjustment in its accounting records; iv) *reporting* intragovernmental data to Treasury; and v) *reviewing* for accuracy intragovernmental differences reported to the entity from Treasury. These differences are then reconciled and resolved (see phases ii and iii above). e) The two general phases of intragovernmental operations performed at year-end: i) eliminating intra-entity intragovernmental amounts from the entity's consolidated financial statements and ii) reporting the entity's audited consolidated financial statement information to Treasury for inclusion in the U.S. government's consolidated financial statement (the entity's intra-entity and inter-entity intragovernmental amounts are eliminated). Note: This includes the closing package, which the entity may cover in a separate audit plan.		
	14) Obtain an understanding of significant accounting and auditing issues by reading the entity's prior year's performance and accountability report or agency financial report, including the auditors' reports.		
	15) Identify the entity's accounting and reporting requirements and applicable auditing standards for intragovernmental activity and balances by reading the following: *a)* SFFAS 4, *Managerial Cost Accounting Concepts and Standards*; SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4*; SFFAS 5, *Accounting for Liabilities of the Federal Government*; SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*; OMB circular on *Form and Content of Agency Financial Statements*; OMB bulletin on *Audit Requirements for Federal Financial Statements*; and Treasury's *Treasury Financial Manual* (TFM), volume 1, part 2, chapter 4700 (TFM 2-4700).		
	b) The entity's policies and procedures covering the general operational phases (see I.1.f-g above).		

Step	Procedures	Done by	Doc. Ref.
	16) To identify the effect of systems/methods for processing, accounting, and financial reporting of intragovernmental activity and balances, perform the following procedures: a) Interview the entity's key management about processes, for example, the systems/methods that are used to process intragovernmental activity and balances (e.g., IPAC, credit cards, standard forms used to transfer funds between appropriations, etc.).		
	b) Obtain estimates of the approximate number and dollar amount of intragovernmental activity and balances (this could be based on the prior year) that are processed by each significant system/method (FAM 270).		
	c) Consider coordinating this work with the audit of like nonfederal (i.e., non-intragovernmental) activity and balances (i.e., similar transactions by the entity with parties other than other federal entities).		
	17) To help identify the significant line items, accounts, assertions, and cycles of intragovernmental activity and balances, perform the following procedures: a) Ask entity management to identify the following: i) The names of all intragovernmental trading partners and the volumes and dollar amounts of intragovernmental activity and balances with each trading partner.		
	ii) The nature and terms of all significant intragovernmental activity and balances. Understanding these details will help the auditor determine whether the entity is correctly resolving intragovernmental differences.		
	iii) The intragovernmental differences that Treasury reported to the entity, are in Treasury's dispute resolution process, or are being addressed by corrective actions that the entity is implementing.		
	b) Review vendor and customer master file listings, major contracts, and IPAC activity for intragovernmental trading partners to ensure trading partner codes are correct in accordance with TFM Chapter 4700 Appendix 5.		
	18) Determine and document the intragovernmental materiality benchmark, materiality, and performance materiality, which are separate from those calculated for the financial statement audit (FAM 230.10).		

Step	Procedures	Done by	Doc. Ref.
	19) Document the significant line items, accounts, assertions, cycles, and various factors (relating to inherent risk, fraud risk, and control risk) in the first eight columns of the line item risk analysis (LIRA) form (FAM 395 H and FAM 902 A) or equivalent. Note: The LIRA is later updated during the internal control and testing work to document the auditor's determination of the (i) effectiveness of control activities, (ii) control risk, (iii) risk of material misstatement, and (iv) nature and extent of testing. Throughout the audit, the auditor evaluates the possible existence of material intragovernmental activity and balances that could affect the financial statements and evaluates information concerning these amounts to determine the adequacy and appropriateness of financial statement disclosures.		
	20) Summarize results of the planning phase.		
II. INTERNAL CONTROL	Understand and document the *design* of key control activities and determine whether they were *implemented*. Audit procedures to help identify control activities (existence, completeness, valuation, rights and obligations, presentation, and disclosure) are listed below per operational phase. Note: Each operational phase should include appropriate, effective controls (including documented policies and procedures). The federal government has been unable to adequately account for and reconcile intragovernmental activity and balances (and resolve differences) between federal entities. This has resulted in a long-standing material weakness at the U.S. government consolidated financial statement level and is a major impediment to rendering an opinion on the U.S. government's accrual-based consolidated financial statements. Consequently, a key control objective is the timely resolution of intragovernmental differences (control objectives are documented in the specific control evaluation (SCE) form discussed later).		
	Phase I: Identifying and recording intragovernmental activity and balances		
	21) Determine, through inquiries of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity identifies and records intragovernmental amounts. a) Determine whether management reviews the current TFM 2-4700 regarding this phase and updates the entity's policies and procedures to reflect the TFM.		
	b) Determine whether the entity complies with the *U.S. Standard General Ledger* (USSGL) at the transaction level as it applies to intragovernmental activity and balances. For example, the USSGL accounts should include (i) the intragovernmental (i.e., federal) attribute "F," (ii) one of the intragovernmental domains ("F", "G", or "Z"), and (iii) the trading partner identifier code (TFM 2-4700).		

Step	Procedures	Done by	Doc. Ref.
	c) Determine whether the entity ensures that it and its trading partners use the correct reciprocal USSGL accounts, account attributes, and reciprocal categories (TFM 2-4700).[104]		
	d) Determine whether the entity (i) identifies trading partners when transactions are initiated and on all documentation thereafter and (ii) reviews and approves the trading partner codes before they are entered into the system.		
	e) Determine the relationship of trading partner codes to other document identifiers, such as vendor codes. For example, trading partner codes may be integral to each vendor code, or it may be necessary to cross walk vendor codes to a file of trading partner codes.		
	f) Determine *when* the entity recognizes intragovernmental transactions and how the entity ensures that it recognizes the transactions in the same period, and uses the same accounting methodology, as its trading partner.		
	g) Determine whether key control activities are effectively designed (appropriate and consistent with the TFM 2-4700), documented, and implemented.		
	Phase II: Reconciling entity's records of intragovernmental activity and balances to those reported by trading partners, identifying the reasons for the differences.		
	22) Determine, through inquiries of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity reconciles with its trading partners.		
	a) Determine whether management reviews the current TFM 2-4700 regarding this phase and updates the entity's policies and procedures to reflect the TFM.		
	b) Determine whether the entity has established processes with each trading partner to reconcile differences timely.		

[104]Reciprocal accounts are offsetting USSGL accounts used by inter-entity trading partners to record transactions (e.g., a seller's receivable account and a buyer's corresponding payable account). Treasury groups these USSGL accounts into "reciprocal categories," which Treasury uses to help manage intragovernmental transactions, including calculating intragovernmental differences between trading partners, assisting entities in resolving differences, and at year-end eliminating intragovernmental amounts from the U.S. government's consolidated financial statements (TFM 2-4700, apps. 6 and 7).

Step	Procedures	Done by	Doc. Ref.
	c) Determine how often the entity reconciles its intragovernmental amounts with its trading partners (OMB Circular No. A-136 requires reconciliation throughout the year and at least quarterly). Note: For the reasons discussed at the beginning of section II, in addition to differences that are significant to the entity, the entity should also work with trading partners to *reconcile* differences that are only significant to the trading partner (i.e., not significant to the entity).		
	d) Determine whether the entity maintains a current listing of its differences and whether management monitors it to assess the entity's performance in timely reconciling differences.		
	e) Determine whether management reviewed and approved the reasons identified.		
	f) Determine whether key control activities are effectively designed (appropriate and consistent with the TFM 2-4700), documented, and implemented.		
	Phase III: Resolving intragovernmental differences (i.e., making adjustments so that differences no longer exist) after appropriately researching the difference, and/or completing corrective actions that fixed the cause of the difference, or after Treasury issued a decision as part of its dispute resolution process, by doing either of the following: • ***recording an adjustment in the entity's accounting records or*** • ***verifying that the trading partner recorded an adjustment in its accounting records***		
	23) Determine, through inquiry of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity resolves intragovernmental differences.		
	a) Determine whether management reviews the current TFM 2-4700 regarding this phase and updates the entity's policies and procedures to reflect the TFM.		
	b) Determine whether the entity has established processes with each trading partner to resolve intragovernmental differences timely (OMB Circular No. A-136 requires resolution of differences throughout the year and at least quarterly). Note: In addition to differences that are significant to the entity, the entity should also work with trading partners to *resolve* differences that are only significant to the trading partner (i.e., not significant to the entity).		
	c) Determine whether the entity maintains a current listing of its differences and whether management monitors it to assess the entity's performance in timely resolving differences.		

Step	Procedures	Done by	Doc. Ref.
	d) Determine whether management identifies and approves adjustments before adjusting the accounting records. If the trading partners agree that an adjustment is required in the trading partner's records, document what procedures management has to confirm that the trading partner agrees to record the adjustment.		
	e) Determine whether key control activities are effectively designed (appropriate and consistent with the TFM 2-4700), documented, and implemented.		
	Phase IV: Reporting intragovernmental data to Treasury		
	Note: Quarterly, entities are required to report intragovernmental data to Treasury so that it can calculate the differences between trading partners (which the entities need to resolve).		
	24) Determine, through inquiries of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity reports intragovernmental activity and balances to Treasury.		
	a) Determine whether management reviews the current TFM 2-4700 regarding this phase and updates the entity's policies and procedures to reflect the TFM.		
	b) Determine whether the entity ensures that only appropriate personnel have access to Treasury systems and have appropriate roles assigned.		
	c) Determine whether reconciliations (matching the data submitted to Treasury to the entity's general ledger and/or subsidiary ledgers) or other procedures are performed to ensure that the intragovernmental data sent to Treasury are accurate and complete.		
	d) Determine whether management reviews and approves the results of the procedures in "c" above.		
	e) Determine whether key control activities are effectively designed (appropriate and consistent with the TFM 2-4700), documented, and implemented.		
	Phase V: Reviewing for accuracy intragovernmental differences reported to the entity from Treasury		
	Note: Throughout the year on a quarterly cycle, Treasury generates and provides to entities various documents that report intragovernmental differences. These include an initial report on which an entity provides Treasury explanations for its differences (material differences report), a scorecard containing metrics, and a concluding report that provides details on all the significant differences (comparative status of disposition report). Entities use this report to resolve differences before the start of the next quarterly cycle.		

Step	Procedures	Done by	Doc. Ref.
	25) Determine, through inquiries of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity (i) reviews for accuracy the intragovernmental differences reported by Treasury, and (ii) reports to Treasury explanations for its differences. a) Determine whether management reviews the current TFM 2-4700 regarding this phase and updates the entity's policies and procedures to reflect the TFM.		
	b) Determine whether the entity ensures that only appropriate personnel have access to Treasury systems and have appropriate roles assigned. Note: Personnel access Treasury systems to obtain reports and to report to Treasury explanations for differences.		
	c) Determine whether management reviews and approves the results of the procedures (e.g., reconciliations) performed.		
	d) Determine whether management reviews and approves the explanations that the entity provides to Treasury.		
	e) Determine whether key control activities are effectively designed (appropriate and consistent with the TFM 2-4700), documented, and implemented.		
	Note: Differences in this phase are then reconciled and resolved by the entity (see phases II and III above).		
	Year-end-only phase: Eliminating intra-entity amounts from the entity's consolidated financial statements		
	26) Determine, through inquiries of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity eliminates intra-entity activity from its consolidated financial statements. a) Determine whether the entity generates year-end reports of all the intra-entity intragovernmental amounts to be eliminated from the entity's consolidated financial statements.		
	b) Determine whether management reviews and approves the results of the procedures done to assess the reports in "a" above for accuracy and completeness.		
	c) Determine whether key control activities are effectively designed, documented, and implemented.		
	Year-end-only phase: Reporting the entity's audited consolidated financial statement information (includes intragovernmental amounts and trading partner information) to Treasury for inclusion in the U.S. government's consolidated financial statements		

Step	Procedures	Done by	Doc. Ref.
	Note: This phase includes the entity's submission of its closing package to Treasury. As the closing package includes information other than intragovernmental, the following may be included in a separate audit of the closing package.		
	27) Determine, through inquiries of management, walk-throughs, reviews of prior years' documentation, and the following procedures, how the entity reports its audited financial statement information to Treasury. a) Determine whether management reviews the current TFM 2-4700 regarding this phase and updates the entity's policies and procedures to reflect the TFM.		
	b) Determine whether the entity ensures that only appropriate personnel have access to Treasury systems and have appropriate roles assigned.		
	c) Determine whether reconciliations (matching the data submitted to Treasury to the entity's audited financial statements) or other procedures are done to ensure that the intragovernmental data to be sent to Treasury are accurate and complete.		
	d) Determine whether management reviews and approves the results of procedures in "c" above. Note: Using the data that the entity submits, Treasury generates trading partner information and "reclassified" financial statements that reflect the formatting of the U.S. government's consolidated financial statements. Entities assess this information.		
	e) For the intragovernmental data Treasury reports back to the entity, determine whether reconciliations or other procedures are done to ensure that they are accurate and complete.		
	f) Determine whether management reviews and approves the results of the procedures in "e" above.		
	g) Determine whether management reviews and approves the intragovernmental data in the closing package (which the entity prepares and sends to Treasury) before submission to Treasury.		

Step	Procedures	Done by	Doc. Ref.
	h) After the entities submit data to Treasury, Treasury calculates differences and analyzes them to identify differences that it can resolve by booking journal vouchers (JV). Doing so, Treasury changes the audited data the entities sent to it, which lessens the total intragovernmental differences reported in the U.S. government's consolidated financial statements. Treasury generally contacts the entities prior to making the JVs. i) Determine whether Treasury contacted the entity regarding these JVs and whether management reviews and approves Treasury's proposed JVs prior to Treasury booking them. ii) Determine whether the entity selects certain personnel to authorize the proposed JVs and whether the selected personnel are sufficiently knowledgeable and senior enough to make such decisions. iii) Determine whether the entity evaluates why Treasury, and not the entity, was able to resolve these differences and whether the entity is taking steps to resolve these differences in the future.		
	i) Determine whether key control activities are effectively designed (appropriate and consistent with the TFM 2-4700), documented, and implemented.		
	Other		
	28) Coordinate with other audit cycles to determine if the entity has internal control deficiencies related to intragovernmental activity and balances, including intragovernmental differences. For example, coordinate with the FBWT audit to determine if the entity has issues on its FBWT/IPAC reconciliation, such as material unresolved differences.		

Step	Procedures	Done by	Doc. Ref.
	29) Prepare or update the following: a) Cycle memorandum (FAM 390.05). b) Flowcharts (FAM 390.05). c) SCE worksheet (FAM 395 G and FAM 902 B, an intragovernmental example), or equivalent, to document the auditor's evaluation of the design of control activities. Note: The SCE is later updated with the results of testing control activities for *operating* effectiveness. d) LIRA forms (FAM 395 H and FAM 902 A, an intragovernmental example), or equivalent, to record the auditor's assessment of the (i) effectiveness of control activities (from the SCE), (ii) control risk, and (iii) risk of material misstatement. Note: The auditor should identify the risk of material misstatement in determining the nature, extent, and timing of control testing and substantive procedures for auditing intragovernmental activity and balances and in evaluating the results of these procedures.		
III. TESTING	If the auditor preliminarily determines that the entity's key control activities are effectively *designed* and implemented, the auditor generally should test them to determine whether they are *operating* effectively. If the auditor preliminarily determines that the key controls are *not* effectively designed or are *not* implemented, determine the effect on substantive testing procedures and the audit report and whether to disclose a significant deficiency or material weakness in internal controls. When intragovernmental activity and balances are material, significant additional work may be necessary to express an unmodified opinion on the financial statements. Note: Listed below are possible testing procedures. Select procedures that test the key control activities found to be effectively designed and implemented. In addition, determine *when* during the year to perform the procedures.		
	Phase I: Identifying and recording intragovernmental activity and balances		
	30) In this phase, test the key control activities that are effectively designed and implemented. a) Review interagency (i.e., inter-entity) agreements and a sample of transactions thereof to determine whether they are recorded in the general ledger with the proper dollar amount, trading partner code, domain, attribute, and USSGL account.		
	b) Review a sample of intragovernmental transactions to determine whether they are supported (the dollar amount, trading partner code, domain, attribute, and USSGL account).		

Step	Procedures	Done by	Doc. Ref.
	c) Reconcile intragovernmental amounts in the general ledger, by trading partner and reciprocal category, to those in subsidiary ledgers.		
	d) Review a sample from the entity's vendor table and customer tables and determine whether the trading partner codes assigned to vendors and customers are correct.		
	e) Review all JVs adjustments recorded from the point of the signed interagency agreement until liquidation of the obligation or unfilled customer order.		
	The following phase I procedures are done only at year-end		
	f) If misstatements are found (per above procedures), document the misstatements, determine the potential effect on the financial statements, and post the misstatements to the Schedule of Uncorrected Misstatements (FAM 595 C-4). This is also noted at the end of phase V.		
	g) Determine if there are unrecorded transactions and if the transactions are recorded in the correct period by doing the following: i) Coordinating with the FBWT portion of the audit to review results of the FBWT reconciliation tests. ii) Searching for unrecorded revenue, accounts receivable, purchases, and accounts payable. For example, select invoices XX days after year-end and trace to shipping records (or evidence of service performance). Determine whether the revenue and accounts receivable were recorded in the correct period. Alternatively, select invoices from shipping records to trading partners prior to year-end and trace to invoices. Also, to test the completeness of amounts recorded as accounts payable at the balance sheet date, select disbursements after the end of the audit period and test whether the amounts were recorded in payables.		
	Phase II: Reconciling entity's records of intragovernmental activity and balances to those reported by trading partners and identifying the causes for the differences		

Step	Procedures	Done by	Doc. Ref.
	Notes: Per the reasons discussed at the beginning of section II, an entity should work with its trading partners to reconcile differences, including differences that are not significant to the entity but are significant to the trading partners. Exhibit I to FAM 902 C provides an illustration of a tool that may be used to summarize reconciling items and prove amounts between a buyer and a seller entity.		
	31) In this phase, test the key control activities that are effectively designed and implemented. a) Review evidence that the entity identified intragovernmental amounts and then contacted each trading partner to reconcile intragovernmental amounts. Note: The rest of this phase and phase III include the differences that Treasury identified in phase V below. Determine whether each trading partner was contacted. Consider sending confirmations to significant trading partners to corroborate the existence, validity, and accuracy of the intragovernmental amount recorded by the agency.		
	b) For intragovernmental differences identified, determine whether during each quarter the entity i) fully researched the differences (note: when the entity is the receiver of the activity, contact trading partners for supporting documentation to confirm the balances); ii) reconciled the differences by identifying the causes of the differences (OMB Circular No. A-136 requires reconciliation throughout the year and at least quarterly); iii) established plans to address the differences; and if differences were not reconciled (i.e., did not identify the reason for the difference), determine why.		
	c) Review evidence of management's monitoring of the timely reconciliation of differences to determine whether management's monitoring is effective.		
	d) Participate in the entity's teleconferences with Treasury to discuss the entity's draft scorecard, paying particular attention to matters regarding reconciliation and the identification of causes of differences.		

Step	Procedures	Done by	Doc. Ref.
	e) Use auditor judgment to conclude whether the entity i) satisfied TFM requirements for effectively reconciling differences and ii) effectively worked with trading partners to reconcile differences that were only significant to the trading partners.		
	Phase III: ***Resolving intragovernmental differences (i.e., making adjustments so that differences no longer exist) after appropriately researching the difference, and/or completing corrective actions that fixed the cause of the difference, or after Treasury issued a decision as part of its dispute resolution process, by taking one of the following actions:*** • ***recording an adjustment in the entity's accounting records or*** • ***verifying that the trading partner recorded an adjustment in its accounting records***		
	32) In this phase, test the key control activities that are effectively designed and implemented. a) For the intragovernmental differences identified (in phase II above and those Treasury reported in phase V below), determine whether during each quarter the entity resolved each difference by either recording an adjustment in the entity's accounting records and/or verifying that the trading partner recorded an adjustment in its accounting records (OMB Circular No. A-136 requires resolution of differences throughout the year and at least quarterly). If differences were not resolved, determine why.		
	b) Verify that management reviewed and approved the adjustments before adjusting the accounting records.		
	c) Trace, from the source documents to the general ledger, the adjustments that resolved differences.		
	d) Review the evidence of management's monitoring of the timely resolution of differences to determine whether management's monitoring is effective.		
	e) Participate in the entity's teleconferences with Treasury to discuss the entity's draft scorecard, paying particular attention to matters regarding the resolution of differences.		

Step	Procedures	Done by	Doc. Ref.
	f) Use auditor judgment to conclude whether the entity i) satisfied TFM requirements for effectively resolving material differences and ii) effectively worked with trading partners to resolve differences that were only significant to the trading partners.		
	Phase IV: Reporting intragovernmental data to Treasury		
	33) In this phase, test the key control activities that are effectively designed and implemented. a) Reconcile the intragovernmental data submitted to Treasury to the entity's general ledger and/or review and re-perform other procedures the entity performed to ensure that the data sent to Treasury was accurate and complete.		
	b) Verify that the results of the procedures in "a" above were reviewed and approved by management.		
	c) Verify that entity personnel that accessed Treasury's systems to report the entity's intragovernmental data were (i) authorized by the entity to do so and (ii) have role descriptions that include this work.		
	d) If the entity determines that it has recurring or permanent differences with its trading partner (for example, due to a difference in accounting methodology), inquire of management how it communicates this information (whether in its closing package or otherwise) to Treasury.		
	Phase V: Reviewing for accuracy intragovernmental differences reported to the entity from Treasury Note: Quarterly, Treasury generates and provides to entities various documents that report intragovernmental differences. These include an initial report on which an entity provides Treasury explanations for its differences (material differences report), a scorecard containing metrics, and a concluding report that provides details on all the significant differences (comparative status of disposition report). Entities use this report to resolve differences before the start of the next quarterly cycle.		
	34) In this phase, test the key control activities that are effectively designed and implemented. a) Review and re-perform the entity's procedures to ensure that the intragovernmental differences reports were accurate and complete.		
	b) Verify that management reviewed and approved the results of the procedures in "a" above.		

Step	Procedures	Done by	Doc. Ref.
	c) Review the explanations that the entity provided Treasury to determine whether they were reasonable and supported.		
	d) Verify that management reviewed and approved the explanations.		
	e) Verify that the explanations were timely provided to Treasury (per the schedule in the TFM 2-4700).		
	f) Participate in the entity's teleconferences with Treasury to discuss the entity's scorecard, paying particular attention to matters regarding this phase, that is, the explanations for differences that the entity provided Treasury.		
	g) Verify that entity personnel who accessed Treasury's systems to obtain differences reports and later report explanations to Treasury (i) were authorized by the entity to do so and (ii) have role descriptions that include this work.		
	Note: The entity should reconcile and resolved differences found in this phase (see phases II and III above).		
	Other		
	35) At the conclusion of interim testing, based on the results of testing, reassess the risk of material misstatement and the overall audit assurance needed, then revise audit procedures. If material weaknesses or other significant deficiencies are identified, consider their implications on this risk assessment.		
	36) Analytical procedures: After completing the tests of details in phases I through V, perform analytical procedures to determine whether balances are reasonable and reflect appropriate activity. For example, take the following actions: a) Develop expectations of the accounts payable and receivable balances overall or for all significant trading partners in light of the payment cycle during the year. Then compare these to the recorded balances and investigate differences in the recorded balances. b) Develop expectations of recorded intragovernmental revenue overall or for all significant trading partners based on independent data. Then compare these to the recorded amounts and investigate differences in the recorded balance. c) Examine accounting records for large, unusual, or nonrecurring activity or balances.		

Step	Procedures	Done by	Doc. Ref.
	37) The auditor may detect misstatements during testing of intragovernmental transactions (i.e., in phase I, a transaction was recorded with an incorrect amount) and testing of the entity's resolution of inter-entity intragovernmental differences (i.e., in phase III, the entity reconciled an intragovernmental difference, that is, determined its cause but did not yet resolve the difference; therefore, the difference still exists at year-end). The reconciled yet unresolved inter-entity intragovernmental differences that are misstatements are those differences for which the entity needs to adjust its accounting records and either a) the entity appropriately researched the difference and determine that it needs to adjust its accounting records (with which the trading partner concurred) or b) the Bureau of the Fiscal Service, as part of its dispute resolution process, issued a decision that the entity is to adjust its accounting records. The auditor should document the misstatements, determine the potential effect on the financial statements, and record the misstatements in the Schedule of Uncorrected Misstatements (see FAM 540 and 595 C).		
	Year-end-only phase: Eliminating intra-entity activity from the entity's consolidated financial statements		
	38) In this phase, test the key control activities that are effectively designed and implemented.		
	a) Obtain a list of the entity's year-end intra-entity intragovernmental amounts identified for elimination and verify that for each that		
	i) an eliminating journal entry was done and		
	ii) management reviewed and approved the journal entry prior to booking the adjustment.		
	b) Read OMB Circular No. A-136 (and FAM 1001) to determine the requirements for reporting intragovernmental information in the entity's consolidated financial statements and the management representation letter. Review the information to determine whether they comply.		
	c) Read the entity's consolidated financial statements and notes and compare the reported intragovernmental activity and balances with the test results.		
	d) Communicate with trading partner entities' auditors (with entity permission) to determine whether issues these auditors identified affect the auditor's conclusions on intragovernmental transactions.		

Step	Procedures	Done by	Doc. Ref.
	e) Summarize the results and propose any adjustments on the Schedule of Uncorrected Adjustments (FAM 595 C-4).		
	f) Conclude on whether intragovernmental activity and balances have been adequately accounted for and properly disclosed in the financial statements.		
	Year-end-only phase: Reporting the entity's audited consolidated financial statement information (which includes intragovernmental amounts and trading partner information) to Treasury for inclusion in the U.S. government's consolidated financial statements Note: This phase includes the entity's submission of its closing package to Treasury. As the closing package includes information other than intragovernmental, the following may be included in a separate audit of the closing package.		
	39) In this phase, test the key control activities that are effectively designed and implemented.		
	a) Reconcile the intragovernmental data submitted to Treasury to the entity's audited consolidated financial statement information, and/or review and re-perform other procedures that the entity performed to ensure that these data are accurate and complete. b) Verify that management reviewed and approved the results of the procedures in "a" above. Note: using the data the entity submits, Treasury generates trading partner information and "reclassified" financial statements that reflect the formatting of the U.S. government's consolidated financial statements. Entities assess this information.		
	c) For the intragovernmental data that Treasury reports back to the entity, reconcile the trading partner information and the intragovernmental data in the reclassified financial statements to the entity's audited consolidated financial statement information and other sources, and/or review and re-perform other procedures the entity performed to ensure that this information is accurate and complete.		
	d) Verify that management reviewed and approved the results of the procedures in "c" above.		
	e) Review and re-perform the procedures that the entity performed to ensure that the closing package was accurate and complete.		
	f) Verify that (i) management reviewed and approved the completed closing package before submission to Treasury and (ii) the submission was timely (per the schedule in TFM 2-4700).		

Step	Procedures	Done by	Doc. Ref.
	g) Verify that entity personnel who accessed Treasury's systems to report the entity's intragovernmental data and then its closing package (i) were authorized by the entity to do so and (ii) have role descriptions that include this work.		
	h) After the entities submit data to Treasury, Treasury calculates differences and analyzes them to identify difference that it can resolve by booking journal vouchers (JV). Doing so, Treasury changes the audited data the entities sent it, which lessens the total intragovernmental differences reported in the U.S. government's consolidated financial statement. Treasury generally contacts the entities prior to making the JVs. i) Verify that entity personnel that reviewed and approved Treasury's proposed JVs were (a) authorized by the entity to do so, (b) sufficiently knowledgeable and "senior" to make such a decision, and (c) made reasonable JV decisions. ii) Verify that the entity determined (a) why Treasury and not the entity was able to resolve these differences and (b) steps it will take in the future to resolve these differences.		

Exhibit I Reconciliation of Seller Entity Intragovernmental Earned Revenue with Buyer Entity Cost

Table LIne	Component	Amounts	Notes
1.	**Seller Entity – Trading Partner 1** Intragovernmental cashed received for each revenue, FY 20XX, From Trading Partner 2 (General Ledger before adjustment)	$200,000	
2.	Less adjustment for timing difference		
3.	Cash received but revenue unearned at end of the current year	(20,000) See line 13	
4.	Add adjustment for timing difference		*The contra accounts for timing items should also reconcile.*
5.	Earned revenue recognized on unbilled work at the end of the current year	50,000 See line 10	
6.	Intragovernmental earned revenue – accrual basis, FY 20XX, from Trading Partner 2 (General Ledger after adjustment)	**$230,000** See line 14	*The Seller's unearned revenue account (liability) should reconcile with the Buyer's prepaid (asset) account.*
7.	*When reconciled, Seller Revenue and Buyer Cost must agree after adjustments are recorded to correct for errors.*		
8.	**Buyer Entity – Trading Partner 2** Intragovernmental purchases – cash basis, FY 20XX, from Trading Partner 1 (General Ledger before adjustment).....	$190,000	*The Seller's earned but unbilled receivable (asset) should reconcile with the Buyer's accounts payable for unbilled work (liability) account.*
9.	Add:		
10.	Adjustment for cutoff error identified during reconciliation process (cash sent to Trading Partner 1 but not recorded)	10,000	
11.	Adjustment for completed but unbilled work at the end of the current year	50,000 See line 5	
12.	Less:		
13.	Cash paid in the current year, but amount prepaid at end of current year	(20,000) See line 3	
14.	General ledger after adjustment for Trading Partner 1	**230,000 See line 6**	
15.	Less:		*When reconciled*

Table LIne	Component	Amounts	Notes
16.	Reconciling item for purchases inventoried at end of the current year	(50,000)	*and adjusted, Seller Revenue and Buyer Cost may not agree because of timing differences. Here, the Buyer has inventoried a portion of the purchases for the year.*
17.	Intragovernmental purchases included in cost – accrual basis, FY 20XX, from Trading Partner 1	**$180,000**	

903 – Auditing Cost Information

.42 FAM 903 provides general guidance for auditors on identifying cost information and planning audit procedures. The auditor should coordinate these procedures with procedures for auditing various line items and accounts. The auditor is generally concerned about cost information for the following reasons:

- The auditor should obtain sufficient evidence to determine whether costs are presented fairly in entity financial statements and are appropriately classified. Proper classifications of costs at the entity level also contribute to proper classification of costs in the consolidated financial statements of the U.S. government.
- For CFO Act agencies, the auditor must evaluate whether agency financial management systems substantially comply with the three requirements of FFMIA, including applicable federal accounting standards, such as cost accounting standards.
- Although the auditor does not opine on the MD&A, cost information is important to the MD&A, particularly as it relates to developing performance measures. The relevant accounting standard for cost information is SFFAS 4, *Managerial Cost Accounting*, as amended by SFFAS 30, *Inter-Entity Cost Implementation*. These standards are relevant both to external financial reporting and to cost information for internal management reporting.

The Effect of SFFAS 4 and SFFAS 30

.43 SFFAS 4 establishes the concepts and standards for providing reliable and timely information on the full cost of federal programs, their activities, and outputs. The objectives of managerial cost information specified in SFFAS 4 are as follows:

- To provide program managers with relevant and reliable information relating costs to outputs and activities. With this information, program managers should understand the costs of the activities they manage. The cost information should assist them in improving operational efficiency.
- To provide relevant and reliable cost information to assist the Congress and executives in making decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance.
- To provide consistency between costs reported in general purpose financial reports and costs reported to program managers. This includes standardizing terminology to improve communication among federal organizations and users of cost information.

.44 The first two objectives primarily address the managerial use of cost information in improving operating efficiency and cost-effectiveness, making planning and budgeting decisions, and measuring performance. The third objective primarily addresses external financial reporting, which can be achieved by reporting cost information in financial statements that is consistent with costs generated by the cost accounting process. Because of the differences in the three objectives, some requirements in SFFAS 4 are relevant to managerial decision making and

operations improvement, while some requirements are relevant to external financial reporting.

.45 The cost accounting concepts section of SFFAS 4 (paras. 41-66) establishes the overall goals of cost accounting for federal agencies. Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, be integrated with the other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement that is appropriate for the intended purpose. Cost information developed for various purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

.46 The five fundamental standards for managerial cost accounting set forth in SFFAS 4 (paras. 67-162) are important for the auditor. These standards will lead to the development of accurate and consistent cost information for internal and external reporting by federal agencies. The five standards are as follows:

i. Requirement for cost accounting: Each reporting entity is to accumulate and regularly report the cost of its activities for management information.

ii. Responsibility segments: Management of each reporting entity is to define and establish responsibility segments and report the costs of each segment's outputs.

iii. Full costs: Reporting entities are to report the full costs of outputs, which is the total amount of resources used to produce an output, including direct and indirect costs.

iv. Inter-entity costs: Each entity's costs are to incorporate the full cost of goods and services received from other entities. As directed by SFFAS 4, paragraph 110, OMB has designated, in Circular No. A-136, *Financial Reporting Requirements*, the costs of goods and services received from other entities that should be recognized. SFFAS 30 requires full implementation of this inter-entity cost provision.

v. Costing methodology: The costs of resources that directly or indirectly contribute to the production of outputs are to be accumulated and assigned to outputs using appropriate methodologies. (FAM 903.07)

Audit Procedures for Financial Statement Opinion

.47 As part of understanding the entity's operations, the auditor generally should obtain an overview of how the entity applies FASAB cost standards. This may be done by inquiry, observation, and walk-through procedures. The auditor generally should determine what substantive testing procedures of the cost accounting system are appropriate and may coordinate testing with other control and substantive procedures. Based on the understanding of entity operations, the auditor should determine whether the statement of net costs is designed to include all costs of entity programs. Also, in testing the statement of net costs, the auditor generally should test the financial statement assertions related to costs, including whether expenses are properly classified in the statement of net costs. Consistent with FAM 395 B, examples of subassertions related to costing follow.

EXISTENCE OR OCCURRENCE

- **Occurrence/validity**—(1) Recorded costs, underlying goods and services received, and related processing procedures are authorized by federal laws, regulations, and management policy. (2) Recorded costs are approved by appropriate individuals in accordance with management's general or specific criteria. (3) Recorded costs exist for goods and services received and are properly classified.
- **Cutoff**—Costs recorded in the current period represent goods and services received during the current period.
- **Summarization**—(1) The summarization of recorded costs is not overstated. (2) Costs are assigned to appropriate classifications in the financial statements.

COMPLETENESS

- **Transaction completeness**—All valid costs are recorded and properly classified.
- **Cutoff**—All goods and services received in the current period are recorded in the current period.
- **Summarization**—The summarization of recorded costs is not understated.

ACCURACY/VALUATION

- **Accuracy**—Costs are recorded at correct amounts.
- **Valuation**—Costs are valued in the financial statements using an appropriate valuation basis.
- **Measurement**—Costs included in the financial statements are properly measured.

PRESENTATION AND DISCLOSURE

- **Account classification**—Cost accounts are properly classified and described in the financial statements.
- **Consistency**—Costs in financial statements are based on accounting principles that are applied consistently from period to period.
- **Disclosure**—Financial statements and footnotes contain all information required to be disclosed.

.48 SFFAS 4 discusses three methods of assigning costs: directly tracing costs, assigning costs on a cause-and-effect basis, and allocating costs on a reasonable and consistent basis. Although the standard discusses these three methods in relation to assigning costs to responsibility segments and outputs, the methods are also applicable to assigning costs to financial statement line items in the statement of net costs, generally by program, and in the notes by budget functional classification. The different methods of assigning costs may require different auditing procedures for determining whether costs are properly classified in the statement of net costs by program.

.49 For directly traced costs (such as materials used in production or employees who worked on an output), the auditor generally should test whether costs were assigned to the appropriate program and/or budget functional classification.

.50 In some cases, costs may be assigned on a cause-and-effect basis, by grouping costs into cost pools where an intermediate activity may be a link between the cause and the effect. For example, an information technology department may provide support to other departments. The information technology department may assign costs to other departments on a cause-and-effect basis by first assigning costs to an intermediate activity, such as hardware installation or software design. The costs in these pools may then be further assigned to other departments based on their use of these technical services.

In auditing these types of costs, the auditor generally should test whether costs are assigned to the appropriate cost pool (e.g., hardware installation or software design) and also whether costs are appropriately summarized in the pool. When costs are assigned to other departments, the auditor generally should test whether costs assigned are based on appropriate usage information, cost assignments are reasonable and consistent, and they are mathematically accurate.

.51 If it is not economically feasible to either directly trace or assign costs on a cause-and-effect basis, the entity may allocate costs. This is commonly done with costs such as general management, depreciation, rent, maintenance, security, and utilities that various segments use. These costs are generally accumulated in cost pools and allocated to segments or outputs (or programs or budget functional classifications) using a cost driver, such as number of employees, square footage of office space, or amount of direct costs incurred in segments.

In auditing these allocated costs, the auditor generally should test whether the costs are assigned to the appropriate cost pool and summarized appropriately. The auditor also generally should determine whether the allocation basis is reasonable and consistent, the mathematical allocation is correct, and an allocation is appropriate in the circumstances.

.52 The entity exercises professional judgment in determining the line item and programs to include in its statement of net costs. The auditor generally should consider whether such classifications are reasonable in the circumstances and to ensure that cost assignment methods and procedures are reasonable and documented.

Federal Financial Management Improvement Act of 1996 (FFMIA)

.53 For audits of the CFO Act agencies, the auditor must evaluate whether agency financial management systems substantially comply with the three requirements of FFMIA (see FAM 110.02 and FAM 701). To determine compliance with SFFAS 4 and SFFAS 30 for the purposes of FFMIA, the auditor generally should ask the following questions (which relate to the standards discussed in FAM 903.05):

ooo. Has the agency defined its responsibility segments to delineate costs?

ppp. Does the agency properly accumulate full costs by those responsibility segments?

qqq. Has the agency accounted for the full costs (including inter-entity costs) of products, services, or outputs to be externally reported at the entity-wide level?

rrr. Has the agency accounted for the full cost of resources that contribute to the production of outputs by individual responsibility segment using appropriate costing methodologies? (See FAM 903.07.)

sss. Has the agency reported full costs in the year-end financial statements on the accrual basis of accounting?

ttt. Are costs reported for external financial reporting and those reported for internal management reporting consistent and reconcilable?

uuu. How does management determine compliance with FFMIA?

The auditor generally should combine this inquiry with the procedures in FAM 903.06, and consider the outcome in concluding about compliance with the cost accounting requirements under FFMIA. Also, the auditor generally should review evidence supporting management's assertions in response to these questions, as further discussed in FAM 701.

Management's Discussion and Analysis (MD&A)

.54 The auditor does not provide an opinion on the MD&A and this information is unaudited. Thus, the auditor's main concern is consistency of this information, rather than testing the reliability of the cost data in the MD&A. The auditor generally should read the MD&A for consistency with the financial statements and with the auditor's knowledge of the entity. The auditor generally limits data testing to data in the financial statements, as discussed in FAM 903.06, not the data in the MD&A. The auditor may use analytical procedures to determine the reasonableness of cost data in the MD&A. Based on this comparison, the auditor should determine whether additional testing is needed.

904 – Related Parties

.55 As discussed in FAM 420, the auditor is to design and perform audit procedures whose nature, timing, and extent respond to the assessed risks of material misstatement, including risks arising from the entity's failure to appropriately account for or disclose related-party relationships, transactions, or balances. AU-C 550 discusses requirements for related-party relationships and transactions. These requirements are discussed in FAM 280.04, FAM 550.15, and below in FAM 904.02 through .06.

.56 The auditor should inspect the following for indications of the existence of related-party relationships or transactions that management has not previously identified or disclosed to the auditor:

- bank and legal confirmations obtained as part of the auditor's procedures,
- minutes of meetings of those charged with governance, and
- other records or documents considered necessary in the circumstances. (AU-C 550.16)

.57 If the auditor identifies significant transactions outside the entity's normal course of business, the auditor should inquire of management about the following:

- the nature of these transactions and
- whether related parties could be involved. (AU-C 550.17)

Further, if the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the risk assessment procedures in FAM 260 and related activities in connection with related parties, the auditor should consider such information when identifying and assessing the risks of material misstatement due to fraud (AU-C 550.20).

.58 If the auditor identifies arrangements or information that suggests the existence of related-party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor should determine whether the underlying circumstances confirm the existence of those relationships or transactions. (AU-C 550.22)

.59 If the auditor identifies related parties or significant related-party transactions that management has not previously identified or disclosed to the auditor, the auditor should perform the following. (AU-C 550.23)

- Promptly communicate the relevant information to the other members of the engagement team.
- Request that management identify all transactions with the newly identified related parties for the auditor's further evaluation.
- Inquire why the entity's controls over related-party relationships and transactions failed to identify or disclose the related-party relationships or transactions.
- Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related-party transactions.

- Reconsider the risk that other related parties or significant related-party transactions may exist that management has not previously identified or disclosed to the auditor and perform additional audit procedures as necessary.
- Evaluate the implications for the audit if management's nondisclosure appears intentional (and therefore indicative of a risk of material misstatement due to fraud).

.60 For identified significant related-party transactions outside the entity's normal course of business, the auditor should perform the following. (AU-C 550.24)

- Inspect the underlying contracts or agreements, if any, and evaluate whether
  - the business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets,
  - the terms of the transactions are consistent with management's explanations, and
  - the transactions have been appropriately accounted for and disclosed.
- Obtain audit evidence that the transactions have been appropriately authorized and approved.

If management has made an assertion in the financial statements to the effect that a related-party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor should obtain sufficient appropriate audit evidence about the assertion. (AU-C 550.25)

905 – Accounting Estimates

.61 As discussed in FAM 420, the auditor is to design and perform audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement, including risks related to accounting estimates, at the financial statement and assertions levels. Certain accounting estimates may require review by accounting specialists. Auditors should refer to AU-C 300.12 and FAM 620. In addition to those procedures, AU-C 540 requires specific responses at the assertion level for accounting estimates. The auditor should determine

- whether management has appropriately applied the requirements of U.S. GAAP relevant to the accounting estimate;
- whether the methods for making the accounting estimates are appropriate and have been applied consistently; and
- whether changes from the prior period, if any, in accounting estimates or the method for making them are appropriate (e.g., based on a change in circumstances or new information) AU-C 540.12, .A52, and .A58.

.62 The auditor should perform one or more of the following, taking into account the nature of the accounting estimate (AU-C 540.13; see AU-C 540.A60 through .A101 for additional guidance):

- Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate.
- Test how management made the accounting estimate and the data on which it is based. In doing so, the auditor should evaluate whether
  - the method of measurement used is appropriate in the circumstances,
  - the assumptions used by management are reasonable in light of the measurement objectives of U.S. GAAP, and
  - the data on which the estimate is based are sufficiently reliable for the auditor's purposes.
- Test the operating effectiveness of the controls over how management made the accounting estimate, together with appropriate substantive procedures.
- Develop a point estimate or range to evaluate management's point estimate. For this purpose,
  - if the auditor uses assumptions or methods that differ from management's, the auditor should obtain an understanding of management's assumptions or methods sufficient to establish that the auditor's point estimate or range takes into account relevant variables and to evaluate any significant differences from management's point estimate and
  - if the auditor concludes that it is appropriate to use a range, the auditor should narrow the range, based on audit evidence available, until all outcomes within the range are considered reasonable.

.63 The auditor should review management's judgments and decisions in making accounting estimates to identify whether indicators of possible management bias

exist. Examples of indicators include (1) the selection of significant assumptions that yield an estimate favorable for management's objectives; (2) consistently overstating or understating components of the financial statements, such as total assets or total expenditures; and (3) changes in an estimate or method because management has subjectively (arbitrarily) assessed a change in circumstances. Indicators of possible management bias may affect the auditor's conclusion on the financial statements but do not, themselves, constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual accounting estimates (see FAM 540.06). When indicators exist, the auditor may need to consider the implications on the risk assessment and related responses. (AU-C 540.21, .A133, and .A134)

.64 For accounting estimates with significant risks, the auditor should evaluate the following (AU-C 540.15):

- How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- Whether the significant assumptions (those in which a reasonable variation would materially affect the amount of the estimate) used by management are reasonable.
- When relevant to the reasonableness of the significant assumptions used by management or the appropriate application of U.S. GAAP, management's intent to carry out specific courses of action and its ability to do so.

.65 For accounting estimates with significant risks and when the auditor determines that management has not adequately addressed the effects of estimation uncertainty, the auditor should, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate. (AU-C 540.16)

.66 For accounting estimates with significant risks, the auditor should obtain sufficient appropriate audit evidence about whether

- management's decision to recognize or not recognize the accounting estimates in the financial statements and
- the selected measurement basis for the accounting estimates

are in accordance with U.S. GAAP. (AU-C 540.17) When management has recognized an accounting estimate, the auditor's evaluation is on whether the measurement of the estimate is sufficiently reliable to meet the recognition criteria of U.S. GAAP. If the estimate has not been recognized, the auditor's evaluation is on whether the recognition criteria of U.S. GAAP have, in fact, been met. (AU-C 540.A119 through .A120)

.67 Additionally, the auditor should evaluate whether management's estimates, while individually reasonable, consistently overstate or understate components of the financial statements, such as total assets or total expenditures, and indicate that possible management bias exists in the accounting estimates. If so, the auditor should evaluate the effects on the financial statements in addition to any uncorrected misstatements when determining the appropriate type of opinion. (AU-C 540.18). Further guidance on uncorrected misstatements, see FAM 540.

.68 The auditor should obtain sufficient appropriate audit evidence about whether the disclosures in the financial statements related to accounting estimates are in accordance with the requirements of the applicable financial reporting framework (AU-C 540.19).

921 – Auditing Fund Balance with Treasury (FBWT)

.69 FAM 921 provides guidance to the auditor when auditing FBWT accounts. A federal entity's FBWT account (USSGL account 1010) is an asset account, unique to the U.S. government, representing the aggregate amount of funds from which the entity is authorized to make expenditures and pay liabilities. From the reporting entity's perspective, FBWT is an asset because it represents the entity's claim to the federal government's resources.

.70 Entities record their budget authority in FBWT accounts with an offsetting amount to unexpended appropriations (USSGL account series 3100). FBWT increases as funding is obtained (for example, through appropriations, nonexpenditure transfers, or offsetting collections[105]) and decreases as amounts are disbursed (for example, through cash or intragovernmental payments). Most entities have multiple FBWT accounts funded by different appropriations that are included in the financial statement FBWT line item.[106] Treasury maintains the *Federal Accounting Symbols and Titles (FAST) Book* (FAST Book), which lists receipt, appropriation, and other fund account identifiers, symbols, and titles that Treasury assigns.

.71 Federal entities may also maintain specific types of FBWT accounts, such as those for collections pending litigation; amounts awaiting determination of the proper accounting disposition; or moneys that the entity is holding in the capacity of a banker or agent for others, such as nonentity, trust, or escrow accounts. Certain funds may also be earmarked for specific purposes or restricted as to use.

.72 Federal entities may also have FBWT balances in clearing or suspense accounts as a result of unidentified and unclassified transactions. Clearing and suspense accounts are used to temporarily record transactions prior to recording them in the proper FBWT account. The suspense account is used because the proper FBWT account could not be determined at the time the transaction was recorded. When the proper account is determined, the amount should be moved from the suspense account to the proper account.

.05 In the federal government, Treasury serves as the central banker. Most entities use the banking services provided by Treasury's Fiscal Service, and therefore do not keep cash in commercial bank accounts. Treasury disbursing offices process FBWT collection and disbursement activity based on federal entity requests and then report the activity to Treasury's Central Accounting and Reporting System (CARS). Fiscal Service compares the cash activity processed through Treasury systems by Treasury disbursing offices to Federal Reserve Bank records as frequently as daily to help ensure the accuracy of Treasury disbursing offices' records. Entities that use Treasury disbursing offices also report some information, such as adjustments or other supplementary information, directly to CARS using the Classification Transactions and Accountability (CTA) module in

[105]Offsetting collections are those authorized by law to be credited to appropriation or expenditure accounts. Governmental receipts such as income tax collections are generally not available for expenditure by federal entities; spending authority must be granted through appropriations acts or other statutes. All receipts that are not earmarked by law for specific purposes are recorded in general fund receipt accounts, which are not included in federal entity FBWT.

[106]Appropriations may be annual, multiyear, or no year.

CARS. These entities should reconcile collection and disbursement activity recorded in their general ledger accounts with FBWT activity reported to CARS.

.06 Some entities have authority to collect or disburse funds on their own behalf, and some maintain separate commercial bank accounts in U.S. or foreign currency. These non-Treasury disbursing office entities report monthly collection and disbursement totals to CARS through the CTA module (Standard Forms 1219/1220 or 1218/1221).[107] These entities should reconcile collection and disbursement activity recorded in their general ledger directly with banking system reports and other information as appropriate. CTA submissions should be generated using entity general ledger records of FBWT activity. These entities also receive monthly Statements of Differences (Standard Form 6652) via CARS when collection and disbursement totals reported through the CTA module do not agree with totals of collections and disbursements reported to CARS through other Treasury payment information systems.[108]

.07 Most federal entities use Treasury's IPAC system as the primary tool for electronically billing and/or paying for services and supplies within the U.S. government. IPAC reports detailed or summary intragovernmental collection and disbursement information to CARS on a daily basis.

.08 Treasury maintains CARS for government-wide accounting and reporting. CARS provides the following functions relevant to the FBWT reporting process:

- Captures appropriation,[109] payment, collection, IPAC, and other FBWT activity by Treasury Account Symbol[110] and Agency Location Code.[111]
- Allows federal entities access to transaction information reported through Fiscal Service collection and disbursement systems and other sources to support research and reconciliation of Fiscal Service and entity FBWT records.
- Provides Statements of Differences for differences between information reported by federal entities via the CTA module and information reported to CARS by other Treasury payment information systems.
- Provides federal entities with FBWT Account Statements. Treasury provides these statements by Treasury Account Symbol and Agency Location Code, and the statements include a roll forward of the previous month's balance; the current month's activity; and other account activity, such as supplemental appropriations, rescissions, nonexpenditure transfers, and activity reported by other entities. Entities can use these reports to reconcile FBWT.

[107]Treasury is transitioning from a monthly to a daily process of reporting collection and disbursement activity to Treasury for non-Treasury disbursing offices. This daily reporting will eliminate the need for non-Treasury disbursing offices to report FBWT activity using the CTA module except in the case of some adjustments or other supplementary information.

[108]The transition to daily reporting to CARS of non-Treasury disbursing office activity will reduce reliance on monthly Statements of Differences to communicate FBWT differences as activity will be reported as often as daily to Fiscal Service by Federal Reserve Banks.

[109]Fiscal Service records appropriation authority in CARS using annual appropriations acts and other relevant statutes.

[110]The FAST Book lists federal entity Treasury Account Symbols.

[111]The Agency Location Code is a unique four-digit numerical identifier for each federal entity that is used for federal payment schedules and reporting purposes. Federal entities must have valid Agency Location Codes to process transactions for authorized Treasury Account Symbols.

.09 Regular reconciliation of entity FBWT records with Treasury records is a key control in maintaining the accuracy and reliability of entity FBWT records. Effective reconciliations serve as a detection control for identifying unauthorized and unrecorded transactions at the entities and at Treasury. Reconciliations are also important in preventing entity disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available resources.

FBWT Accounting and Reporting Information

.10 To obtain a further understanding of entity's accounting and reporting for FBWT, the auditor may refer to

- Fiscal Service's external website (at https://www.fiscal.treasury.gov/fsservices/gov/acctg/cars/cars_home.htm);
- OMB Circular No. A-136, *Financial Reporting Requirements*;
- SFFAS 1, *Accounting for Selected Assets and Liabilities*; and
- entity accounting policies and procedures for FBWT accounts.

FBWT Audit Issues

.11 Since most assets, liabilities, revenues, and expenses stem from or result in cash transactions, misstatements in the collection or disbursement activity recorded in the FBWT account affect the accuracy of year-end FBWT balances. They also affect the accuracy of several entity financial statements, including the balance sheet, the statement of net costs, and the statement of budgetary resources. Further, these misstatements affect the integrity of entity budget execution reports and various U.S. government accounts and reports.

.12 It is important for entities to establish processes to properly record and reconcile transaction activity in their FBWT accounts because without effective reconciliations of FBWT collection and disbursement activity, the amount of funds available for expenditure from each appropriation may contain material misstatements. Entities should avoid arbitrarily adjusting accounts to the amounts reported by Treasury and/or recorded differences in suspense accounts and should adequately research the causes of the differences. Unreconciled differences recorded in suspense accounts could represent transactions that the entity has not properly recorded to the appropriate accounts.

Additionally, it is important for entities to reconcile their FBWT accounts timely because this task becomes more difficult as time passes and erroneous or fraudulent transactions may not be identified in time for entities to take appropriate actions. Treasury uses "independent" sources of entity FBWT activity, such as commercial banks, other federal entities, and Treasury's regional financial centers, to calculate federal entity FBWT balances.

.13 Implementation of CARS reporting by federal entities is expected to vary, and auditors should determine the effects of this early in the audit.[112] The changing

[112]The transition to CARS daily reporting for federal entities that use Treasury disbursing offices has been primarily accomplished. Treasury plans to finalize the transition to CARS reporting for all federal entities within the next couple of years. Treasury will continue to allow CARS reporting entities to also report some information, such as adjustments or other supplementary information, directly to CARS using the CTA module.

environment during this transition period increases the audit risk associated with FBWT. To design effective and efficient audit procedures during this transition period, auditors should fully understand the status of CARS reporting at their respective federal entities and the processes and procedures their entities used during the year of audit.

.14 Since FBWT is not an asset to the government-wide statements and is an intragovernmental item, except for fiduciary or other nonfederal nonentity FBWT, auditors should incorporate FBWT as part of procedures for auditing intragovernmental activity and balances (see FAM section 902). Timely reconciliation of entity and CARS FBWT account records is important to entities' ability to identify and resolve intragovernmental differences related to FBWT timely.

.15 Auditors will need to design procedures to test whether entities have properly reconciled and classified the items that were recorded in clearing or suspense accounts. Auditors will need to ensure that the entities accurately perform all of the reconciliation, aging, and CFO confirmation of balance requirements for these accounts. Auditors will also need to fully understand their entities' procedures for recording and tracking adjustments to suspense accounts going forward and design audit procedures to adequately test and assess the effect of the suspense items on FBWT at year-end.

FBWT Audit Approach

.16 Auditors should obtain and fully document their understanding of entity FBWT accounting, FBWT procedures, and the FBWT control environment, including the information technology processing and security controls over systems that report or transact FBWT activities or balances, to determine the level of audit procedures required.

.17 Auditors should design FBWT audit procedures that include tests of the receipt and disbursement activity that flows through the accounts and the FBWT balances. These procedures should include steps to determine whether the entities

- properly and timely record collection and disbursement activity in their FBWT accounts;
- research and resolve the underlying causes of differences between amounts reported by Treasury and by entities, including the collection and disbursement activity flowing through the FBWT accounts, as well as the monthly account balances, and make the proper adjustments; and
- timely and properly clear suspense account balances.

.18 Auditors should determine the magnitude of the entities' gross unreconciled differences at year-end by analyzing their aggregate absolute values and the resulting effect on the financial statements. Since each difference represents a potential misstatement, the roll-up and netting of charges and credits can significantly understate the total outstanding differences.

Practice Aids

.19 The following practice aids are presented as appendixes to FAM 921 to assist the auditor in auditing FBWT:

- FAM 921 A – Example Line Item Risk Analysis (LIRA) for Fund Balance with Treasury.
- FAM 921 B – Example Specific Control Evaluation (SCE) for Fund Balance with Treasury. A single SCE of the line item/account-related accounting application for FBWT is presented. There are transaction-related accounting applications listed on the LIRA that affect FBWT, such as collections and disbursements, which would require further description in the transaction-related SCE.
- FAM 921 C – Example Audit Procedures for Fund Balance with Treasury.

921 A – Example Line Item Risk Analysis for Fund Balance with Treasury

ENTITY: XYZ Entity (XYZ)
DATE OF FINANCIAL STATEMENTS: 9/30/xx
LINE ITEM: Fund Balance With Treasury

LINE ITEM RISK ANALYSIS FORM
INDEX: _____

PREPARER _____
REVIEWER _____
DATE _____

PLANNING PHASE								INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions	Inherent Risk Factors	Fraud Risk Factors	Control Risk Factors	Mitigating Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Risk of Material Misstatement	Timing I/F	Nature & Extent	Audit Plan Testing Step
Name	Balance												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
FBWT		Completeness FBWT is omitted from the financial statements or is incomplete.	Inherent risk arises from the high volume of transactions flowing through this account.	Fraud risk arises from entity personnel being motivated to disburse funds for personal benefit.	Control risk arises from the (1) highly decentralized structure of entity, which may reduce management's knowledge of and control over operations; (2) significant weaknesses in general controls over the automated systems on which the entity relies extensively to process transactions; and (3) lack of adequate management oversight of the reconciliation process.	Entities reconcile recorded budget authority with appropriation language and law, Treasury warrants, and funding transfers in CARS. Entities perform effective FBWT reconciliations, including ensuring that entity personnel responsible for authorizing collections and disbursements are not the same as those responsible for reconciling and resolving FBWT differences. Entity staff record adjustments where appropriate to resolve collection and disbursement differences, and supervisors review any adjustments made. Management has developed system accounting rules for general ledger system summarization of FBWT transactions by Treasury Account Symbol.	Cycles: Revenue Payroll Budget Treasury Applications: FBWT Collections Disbursements					Test budget authority reconciliations, FBWT activity and balance reconciliations, and controls over adjustments to FBWT. Analyze effect of unresolved reconciling items at year-end. Prepare lead schedule of general ledger accounts that constitute FBWT, analytically review with prior-year data, and resolve causes of unexpected changes. Test IS controls.	

PLANNING PHASE								INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions	Inherent Risk Factors	Fraud Risk Factors	Control Risk Factors	Mitigating Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Risk of Material Misstatement	Timing I/F	Nature & Extent	Audit Plan Testing Step
Name	Balance												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		Valuation / accuracy											
		FBWT is not recorded accurately.	Same as existence.	Same as existence.	Same as existence.	Same as existence.	Cycles: Revenue Payroll Budget Treasury Applications: FBWT Collections Disbursements					Test budget authority reconciliations, FBWT activity and balance reconciliations, and controls over adjustments to FBWT. Analyze effect of unresolved reconciling items at year-end. Test IS controls.	
		Rights											

PLANNING PHASE								INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions	Inherent Risk Factors	Fraud Risk Factors	Control Risk Factors	Mitigating Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Risk of Material Misstatement	Timing I/F	Nature & Extent	Audit Plan Testing Step
Name	Balance												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		Entity does not have certain rights to FBWT because of transfers, rescissions, and restrictions or nonentity accounts.	Inherent risk arises from the high number of appropriation and budgetary accounts, including certain special funds and trust funds that do not belong to the entity. Because these nonentity accounts are maintained in the same system used to maintain entity accounts and financial activity, there is a risk that these accounts will be inappropriately charged and be included in the FBWT line item.	No significant fraud risk factors are identified.	Same as existence.	Same as existence.	Treasury					Review support for recorded appropriation and budgetary accounts included in the FBWT line item. Review footnote disclosure.	

PLANNING PHASE								INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions	Inherent Risk Factors	Fraud Risk Factors	Control Risk Factors	Mitigating Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Risk of Material Misstatement	Timing I/F	Nature & Extent	Audit Plan Testing Step
Name	Balance												
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
		Presentation and Disclosure											
		FBWT is not properly classified and disclosed in the financial statements.	No significant inherent risk factors identified.	No significant fraud risk factors identified.	Same as existence.	The Chief Financial Officer, Reports and Analysis Branch Chief, and Chief Accountant review the financial statements for consistently applied accounting principles.	Treasury					Review FBWT-related financial statement line item and footnote disclosures for conformity with applicable standards, and trace amounts reported in financial statement line items and footnote disclosures to general ledger and supporting detailed records.	
Line Item Total													

921 B – Example Specific Control Evaluation for Fund Balance with Treasury

ENTITY: XYZ Agency (XYZ) DATE OF FIN. STMTS: 9/30/xx ACCOUNTING APPLICATION: Fund Balance with Treasury	**SPECIFIC CONTROL EVALUATION** **FILE: _____**	DESIGN PHASE SIGN-OFFS Preparer: Primary Review: Information Systems Review:[1]	TESTING PHASE SIGN-OFFS Preparer: Primary Review:

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Existence or occurrence	Existence	Existence	**Substantiation:** 1. Recorded FBWT does not exist as of a given date.	1a. Recorded FBWT amounts exist as of a given date.	1a1. Budget Authority Reconciliation: Entity reconciles recorded budget authority with appropriation language and law, Department of the Treasury (Treasury) warrants, and funding transfers in the Centralized Accounting Reporting System (CARS).		Y/N		Y/N	Y/N	

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
					1a2. Transaction Reconciliation: Entity reconciles FBWT collection and disbursement activity with Treasury disbursing office, entity disbursing center, banking system, Intragovernmental Payment and Collection (IPAC) system, or other collection and disbursement processing systems, depending on the entity's processes.		Y/N		Y/N		
					1a3. For entities that disburse funds on their own behalf and maintain cash, and/or check stock on hand, entities maintain control activities over collection and disbursement activity processed through the banking system and IPAC.		Y/N		Y/N		
					1a4. Entity staff reconcile between entity general ledger and Treasury records (CARS FBWT account statements).		Y/N		Y/N		
					1a5. Entity staff reconcile collection and disbursement data reported to CARS, including from Treasury disbursing offices and through the CARS Cash Transaction Accountability module, to the applicable general ledger accounts.		Y/N		Y/N		

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
					1a6. Entity staff track and resolve collection and disbursement differences identified during the FBWT reconciliation or reported on Treasury statements of differences. Management reviews the tracking and resolution of differences.		Y/N		Y/N		
					1a7. Entity staff record adjustments where appropriate to resolve collection and disbursement differences, and supervisors review any adjustments made.		Y/N		Y/N		
					1a8. Entity staff track and resolve collection and disbursements recorded in suspense or clearing accounts. Management reviews the tracking and resolution of transactions posted to suspense or clearing accounts.		Y/N		Y/N		
				1b. Recorded FBWT, at a given date, is supported by appropriate detailed records that are accurately summarized and reconciled to the account balance.	1b1. Management has developed system accounting rules for general ledger system summarization of FBWT transactions by Treasury Account Symbol.		Y/N		Y/N	Y/N	

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
				1c. Access to critical forms, records, and processing and storage areas permitted only in accordance with laws, regulations, and management's policy. 1c1. Management has written policies regarding computer and file access levels.	1c1. Management has written policies regarding computer and file access levels.		Y/N		Y/N	Y/N	
			2. Cutoff: Transac-tions are recorded in the current period, but the related economic events occurred in a different period.	2a. Transactions recorded in the current period represent economic events that occurred during the current period.	Same as 1a2, 1a3, and 1a4.		Y/N		Y/N	Y/N	
			3. Summarization: Transactions are summarized improperly, resulting in an overstated total.	3a. The summarization of recorded transactions is not be overstated.	3a1. Management has developed system accounting rules for general ledger system summarization of FBWT transactions by Treasury Account Symbol.		Y/N		Y/N	Y/N	
Completeness	Complete-ness	Complete-ness	**Account completeness:** 4. FBWT balance	4a. FBWT balance is	Same as existence.		Y/N		Y/N	Y/N	

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			exists but is omitted from the financial statements.	included in the financial statements.	4a1. Entity staff reconcile the FBWT line item crosswalk that includes all general ledger FBWT accounts to those in the *Federal Account Symbols and Titles (FAST) Book*.		Y/N		Y/N		
					4a2. Entity staff request an Agency Location Code in accordance with Treasury policies.		Y/N		Y/N		
			5. Cutoff: Transactions are recorded in the current period, but the related economic events occurred in a different period.	5a. Transactions recorded in the current period represent economic events that occurred during the current period.	Same as 1a2, 1a3, and 1a4.		Y/N		Y/N	Y/N	
			6. Summarization: Transactions are summarized improperly, resulting in an overstated total.	6a. The summarization of recorded transactions is not be overstated.	6a1. Management has developed system accounting rules for general ledger system summarization of collections and disbursements by Treasury Account Symbol.		Y/N		Y/N	Y/N	
Valuation or allocation	Valuation	Valuation	**Accuracy:** 7. FBWT collection and disbursement transactions are recorded incorrectly.	7a. FBWT transactions are recorded accurately.	Same as existence.		Y/N		Y/N	Y/N	
Rights and	Rights	Rights	**Ownership:**								

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
obligations			8. Recorded FBWT is owned by others.	8a. Entity owns recorded FBWT.	Same as 1a1.		Y/N		Y/N	Y/N	
			Rights: 9. Entity does not have certain rights to recorded FBWT because of appropriation restrictions.	9a. Recorded FBWT is entity's rights at a given date.	Same as 1a1.		Y/N		Y/N	Y/N	
Presentation and disclosure	Disclosure	Disclosure	**Account classification:** 10. FBWT is not properly classified and described in the financial statements.	10a. FBWT is properly classified and described in the financial statements.	Same as existence.		Y/N		Y/N	Y/N	
					10a1. The Chief Accountant reviews the FBWT account analysis and crosswalk to the financial statements against the Treasury Financial Management Supplement–*U.S. Government Standard General Ledger* (sec. V).		Y/N		Y/N		
	Presentation	Presentation	**Consistency:** 11. The financial statements components of FBWT are based on accounting principles different from those used in prior periods.	11a. FBWT is based on accounting principles that are applied consistently from period to period.	11a1. The Chief Financial Officer (CFO), Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles.		Y/N		Y/N	Y/N	

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Disclosure	Disclosure	**Disclosure:** 12. Required information is not disclosed in the financial statements or in the footnotes thereto.	12a. The financial statements or footnotes thereto contain all information required to be disclosed.	12a1. The CFO, Reports and Analysis Branch Chief, and the Chief Accountant review the financial statements for consistently applied accounting principles and required disclosure.		Y/N		Y/N	Y/N	
Various	Various	Various	**Segregation of duties:**[5] 13. The entity is exposed to loss of assets and various potential misstatements, including certain of those above, as the result of inadequate segregation of duties.	13a. Persons are prevented from having uncontrolled access to both assets and records.	13a1. Entity personnel responsible for processing collections and disbursements are not the same as those responsible for reconciling FBWT.		Y/N		Y/N	Y/N	
			Safeguarding: 14. The entity is exposed to loss of assets and various potential misstatements as a result of inadequate safeguarding.	14a. Entity assets are controlled to prevent unauthorized removal from the entity's premises.	Not applicable to FBWT.		N/A	N/A	N/A	N/A	N/A

SPECIFIC CONTROL EVALUATION: FUND BALANCE WITH TREASURY											
Accounting Application Assertion	Relevant Assertions in Related Groups of Accounts[2]		Potential Misstatement in Accounting Application Assertions	Internal Control Objectives (ICO)	Internal Control Activities (ICA)	Type of ICA: M(anual), A(utomated), or B(oth)	INTERNAL CONTROL PHASE		TESTING PHASE		
							Is the ICA Effectively Designed?	Audit Doc. Ref.[3]	Is the ICA Effectively Operating?	Is the ICO Achieved?	Audit Plan Testing Step[4]
	Various	Various									
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			Laws, Regulations, Contracts, and Grant Agreements:[6]								
			15. The entity has not complied with all laws, regulations, contracts, or grant agreements that have a direct effect on the determination of material amounts and disclosures.	15a. Compliance: The entity complied with all laws, regulations, contracts, or grant agreements that have a direct effect on the determination of material amounts and disclosures.	15a1. Entity Chief Counsel identifies the laws, regulations, contracts, and grant agreements affecting FBWT.		Y/N		Y/N	Y/N	
					15a2. Management has developed system rules for the summarization of FBWT transactions by Treasury Account Symbol in accordance with appropriation act or other statutory authority.		Y/N		Y/N		

Preparation Notes:

[1]The IS specialist documents review of the Type of Internal Control Activity (column 7).

[2]The third column is for use when the effects of the accounting application on the line items are different. For example, misstatements in the existence or occurrence assertion for cash receipts typically result in misstatements in the existence or occurrence assertion for cash and in the completeness assertion for accounts receivable (see FAM 330.05).

[3]In this column, the auditor would reference the audit documentation supporting the conclusion.

[4]In this column, the auditor would reference the audit procedures in the detailed control testing audit plan (and information system (IS) audit plan, as applicable) that were designed to test each effectively-designed control determined to be relevant. Such tests will involve inquiry, observation, inspection, or a combination thereof.

[5]Segregation-of-duties controls are a type of safeguarding control and are often crucial to the effectiveness of controls, particularly over liquid, readily marketable assets that are highly susceptible to theft, loss, or misappropriation. If there is inadequate segregation of duties, the auditor should identify the specific affect account assertions in columns 2 and 3.

[6]The auditor may either commingle compliance controls (including budget) with financial reporting controls to the extent relevant, list them separately in this section, or present each of these types of controls in a separate SCE. (See FAM 800 for examples of compliance SCEs for laws and regulations included in OMB guidance and other general laws.) If the auditor chooses to list the compliance controls separately in this section, the auditor begins by inserting relevant control objectives and documents the effectiveness of the design and operation of the control activities in achieving the control objectives.

921 C – Example Audit Procedures for Fund Balance with Treasury

Entity _____

Period of financial statements _____

Job code _____

Procedures	Done by	Doc. Ref.
I. Planning and Internal Control Phase		
1) To obtain an understanding of the entity's environment, internal control over FBWT accounting, and reconciliation process in the planning and internal control phase of the audit, the auditor may perform the following steps: a) Identify the entity's FBWT accounting and reporting procedures and applicable accounting guidance.		
b) Read prior-year audit documentation, financial statements, and related audit reports to determine if there were any audit issues, matters for further consideration, significant deficiencies, or material weaknesses related to FBWT.		
c) Identify FBWT line item general ledger accounts and analytically review with prior-year data.		
d) Interview entity key staff about its FBWT procedures and key controls.		
e) Determine how, in conjunction with work performed on other audit cycles, the entity processes FBWT collections and disbursements, either through Treasury disbursing offices, entity disbursing centers, Federal Reserve Bank systems, or a combination of these.		
f) Obtain an understanding of the significant accounting systems and key internal controls used in reporting and accounting for FBWT activity and balances.		
g) Obtain an understanding and walk through entity internal controls over its FBWT reconciliation process, including procedures for aging and timely resolving unreconciled differences, and determine whether reconciliation controls have been implemented.		

Procedures	Done by	Doc. Ref.
h) Identify suspense and clearing accounts that the entity uses that contain unreconciled differences and determine if transactions are identified and removed from these accounts to the proper accounts in a timely manner.		
i) Determine whether the entity is properly accounting for the FBWT line item in accordance with U.S. GAAP by having the entity complete FAM 2010, *Checklist for Federal Accounting*.		
j) Document results in a cycle memo, walk-through, specific control evaluation, line item risk analysis, matter for further consideration, or other documents as appropriate.		
II. Testing Phase		
2) In the testing phase of the audit, the auditor may design an audit program that includes steps to determine whether the entity does the following: a) Properly and timely records and reports collection and disbursement activity in its FBWT accounts. i) In conjunction with work performed on other cycles, perform testing to determine whether the entity reconciles FBWT collection and disbursement activity with Treasury disbursing office, entity disbursing center, banking system, Intragovernmental Payment and Collection system, or other reporting sources, depending on the entity's processes. ii) Perform testing to determine whether FBWT collection and disbursement transactions were recorded in the appropriate FBWT accounts in the entity's general ledger system. iii) Review entity FBWT general ledger account records (for all entity Treasury Account Symbols and Agency Location Codes) to identify any transactions recorded that were not included in testing in conjunction with other cycles, and if transactions were not included, determine whether additional transaction testing is needed. iv) Perform testing of FBWT information reported through the CARS Cash Transaction		

Procedures	Done by	Doc. Ref.
Accountability module to ensure that the information is reported consistent with entity general ledger system records.		
b) Appropriately records and reviews any adjustments recorded to FBWT accounts.		
c) Periodically and at year-end, reconciles its FBWT accounts and researches and resolves the underlying causes of differences between Treasury FBWT reports (such as CARS FBWT account reports) and entity records (including the collection and disbursement activity flowing through the FBWT accounts and the account balances each month) and reviews and makes any needed adjustments timely.		
d) Timely and properly investigates clearing and suspense account balances.		
e) At year-end, performs procedures to determine the materiality of gross unreconciled differences and suspense or clearing account balances by analyzing the aggregate absolute values and resulting effect on the financial statements. (As each difference represents a potential misstatement, the roll-up and netting of charges and credits can significantly understate the total outstanding differences.)		
f) Includes nonexpenditure transactions, such as appropriation warrants, transfers, and rescissions.		
g) Discloses the status of accounts, such as open, expired, or canceled, and whether each account is appropriately included in the FBWT line item.		
III. Reporting Phase		
3) Prepare lead schedule of general ledger accounts that constitute FBWT.		
4) To assess whether the presentation of the financial statements and footnote disclosures for the FBWT line item are in accordance with U.S. GAAP, the auditor may determine whether the entity has done the following:		
a) Disclosed and explained material unreconciled differences in the notes to the financial statements.		

Procedures	Done by	Doc. Ref.
b) Disclosed material unreconciled differences that were written off by the entity during the fiscal year in the notes to the financial statements.		
c) Disclosed material restrictions.		
d) Concluded that proposed audit adjustments are either booked or were determined to be immaterial and were attached to the management representation letter (see FAM 1001).		
e) Determined that the entity is properly reporting and disclosing the FBWT line item in accordance with U.S. GAAP by having the entity complete FAM 2020, *Checklist for Federal Reporting and Disclosure*.		
5) Other audit procedures for FBWT may include tests of entity • fund controls, • reconciliations of proprietary and budgetary amounts, • compliance with applicable provisions of laws and regulations, and • year-end reporting to Treasury and OMB.		
Note: These audit procedures are not intended to be all inclusive. They do not include all audit work over FBWT accounts, such as • cash on deposit bank accounts and petty cash (imprest) funds and • steps to test the specific requirements and/or compliance with selected provisions of applicable laws and regulations related to certain types of FBWT accounts.		

931 – Auditing Heritage Assets and Stewardship Land

.20 Heritage assets are property, plant, and equipment (PP&E) that are unique for one or more of the following reasons:

- Historical or natural significance.
- Cultural, educational, or artistic (or aesthetic) importance.
- Significant architectural characteristics.

Heritage assets consist of two types. Collection type heritage assets involve objects gathered and maintained for exhibition and would include, for example, museum collections, art collections, and library collections. Noncollection type heritage assets would include, for example, parks, memorials, monuments, and buildings.

.21 Stewardship land comprises land and land rights owned by the federal government but not acquired for or in connection with items of general PP&E. Examples of stewardship land include land used as forests and parks and land used for wildlife and grazing. It excludes natural resources (for example, minerals, timber, and petroleum) related to the land.

.22 Some investments in heritage assets (e.g., national parks) will also meet the definition of stewardship land and be considered and reported as both heritage assets and stewardship land. Such reporting would not be considered duplication, as the type of information reported by physical unit would be different for each category of stewardship asset.

.23 Heritage assets may in some cases be used to serve two purposes—a heritage function and general government operations. In cases where a heritage asset serves two purposes, the heritage asset should be considered a **multiuse heritage asset** if the predominant use of the asset is in general government operations. For **example**, the main Treasury building in Washington, D.C., is used primarily as an office building. This multiuse asset would be considered general property, capitalized on the balance sheet, and depreciated. Heritage assets having an incidental use in government operations are not multiuse heritage assets; they are simply heritage assets.

.24 Per SFFAS 29, entities must reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but no dollar amount is shown. At a minimum, entities are to present in note disclosure a description of major categories of assets, physical unit information for the end of the reporting period, physical units added and withdrawn during the reporting period, and a description of the methods of acquisition and withdrawal.

Entities are also required to disclose information about stewardship policies and an explanation of how heritage assets and stewardship land relate to the mission of the entity. The standard also includes disclosure requirements applicable to the U.S. government's consolidated financial statements, which must provide a general discussion of heritage assets and stewardship land and direct users to the applicable entities' financial statements for more detailed information on these assets.

Accounting and Reporting Information

.25 To obtain an understanding of the accounting and reporting requirements (including recognition and measurement, note disclosure, and required supplementary information (RSI)), the auditor should refer to SFFAS 29, *Heritage Assets and Stewardship Land*. The standard also includes disclosure requirements applicable to the U.S. government-wide financial statements.

Audit Approach/Strategy

.26 The auditor should develop an audit approach/strategy by identifying the extent of heritage assets and stewardship land at the entity being audited. The auditor should then obtain and fully document an understanding of this property in the entity's accounts, accounting systems, and related policies and procedures. The auditor should also understand the control environment for this property, including the information technology processing and security controls over systems that report or transact activities or balances, to determine the audit procedures required.

Audit Plan/Procedures

.27 Heritage assets and stewardship land will vary by entity, and the auditor should use professional judgment to design the audit plan/procedures for a particular entity after considering the types of heritage assets and stewardship land, the entity's accounts, materiality, audit risks, and the internal control environment. The auditor may consider the example audit procedures provided below both in auditing this property and in developing new procedures.

Planning Phase

.28 To obtain an understanding of entity heritage assets and stewardship land in the planning phase of the audit, the auditor may do the following:

- Obtain an understanding of significant accounting and auditing issues and read the entity's prior year's accountability and auditors' reports.
- Read applicable SFFAS (i.e., SFFAS 29) and OMB Circular No. A-136 guidance for accounting, reporting, and disclosing heritage assets and stewardship land.
- Understand and document the entity's policies for identifying heritage assets and stewardship land separate from multiuse heritage assets and other general PP&E, and indicate how the designation of heritage assets and stewardship land relates to the entity's mission.
- Understand and document the entity's procedures for identifying, categorizing, accounting for, reconciling, and reporting heritage assets and stewardship land. Note that SFFAS 29 allows the entity flexibility in designating categories by determining a meaningful level of aggregation for reporting and selecting physical units aligned with those categories based on the entity's mission and types of heritage assets and how it manages those assets.

- Understand and document the entity's methodology for acquisition and withdrawal of heritage assets and stewardship land during the reporting period.
- Identify and understand the impact of systems/methods for classifying, accounting for, and processing transactions related to heritage assets and stewardship land by interviewing the entity's key personnel and identifying and understanding its systems and methods for processing transactions.
- Acquire expertise related to the assets being audited. The audit organization should have or contract for personnel with adequate technical expertise to provide technical assistance to the auditor. Refer to AU-C 300.12 and FAM 620.

Internal Control Phase

.29 To understand the internal controls that the entity has implemented for identifying, accounting for, and reporting heritage assets and stewardship land, the auditor may take the following actions:

- Determine, through inquiries of management, walk-throughs, inspections of documents, reviews of prior years' documentation, and other means applicable to the entity, the entity's process for identifying, classifying, and reporting heritage assets and stewardship land, specifically, the following:
  a. Whether the entity has an authorization process and the related control procedures for acquisition and withdrawal transactions related to heritage assets and stewardship land.
  b. How the entity has instituted a consistent methodology for categorizing heritage assets and stewardship land based on the entity's mission and in accordance with SFFAS 29.
  c. How the entity records acquisitions and withdrawal transactions in the accounting system and performs reconciliations between the accounting system and the asset accountability system. In accordance with SFFAS 29, costs related to the acquisition, improvement, reconstruction, and renovation of heritage assets/stewardship land are recognized in the statement of net cost for the period in which the costs are incurred. These include all costs incurred to prepare the item for its intended use.
  d. Whether the entity maintains transaction logs or detailed records of transactions to facilitate the reconciliation process and whether the logs include sufficient information to enable identification and location of supporting documentation.
  e. How the entity classifies and records transfers of heritage assets and stewardship land to/from other federal entities.

f. How the entity classifies and records donation or devise[113] of heritage assets and stewardship land.

g. Whether the entity implements internal control to safeguard collection type heritage assets.

h. Whether the entity separates and capitalizes multiuse heritage assets. The cost of acquisition, improvement, reconstruction, or renovation of multiuse heritage assets should be capitalized as general PP&E and depreciated over its useful life.

i. Whether and how the entity conducts periodic physical inventories designed to verify the existence, location, and condition of all property listed in the accounts and to verify the completeness of recorded units.

- Prepare or update the cycle memorandum, flowchart, LIRA form, and SCE worksheet (see FAM 390, FAM 395 H, and FAM 395 G).

Testing Phase

.30 For heritage assets and stewardship land, if the auditor preliminarily determines that the entity's internal controls are effectively designed and implemented, the auditor should test the operating effectiveness of such controls and perform substantive procedures. The audit objectives for substantive procedures as follows:

- Determine the existence of recorded heritage assets and stewardship land.
- Determine the completeness of recorded heritage assets and stewardship land.
- Determine the entity's ownership rights to record these assets as heritage assets and stewardship land in accordance with SFFAS 29.
- Determine the clerical accuracy of unit schedules for additions and deletions.
- Determine that the aggregation and categorizations of physical units are in accordance with guidelines established in SFFAS 29. For example, the Department of the Interior has reported the number of federal parks, instead of the number of acres those parks comprise, as physical units.
- Determine that the presentation and disclosure of heritage assets and stewardship land and the note disclosures are in accordance with SFFAS 29.

.31 **Existence:** To determine the existence of heritage assets and stewardship land, the auditor may take the following actions:

- Obtain a summary analysis of changes in heritage assets and stewardship land (i.e., beginning balance, additions, deletions, and ending balance) in the current fiscal year and reconcile these to supporting schedules. During a first-year audit, the auditor should test the beginning balance for over- and understatement.

[113] A will or clause of a will disposing of property.

- Vouch a sample of additions during the year to the original documentation, such as contracts, deeds, work orders, and invoices.
- On a sample basis, make physical inspections of acquisitions and examine supporting documents on disposals. The auditor should coordinate physical inspections with the appropriate entity staff, particularly when visiting nonfederal repositories that hold federal museum collections. This will ensure that visits are efficient and productive and that relationships between repositories and the entity are maintained.

.32 **Completeness:** The auditor may determine the completeness of recorded heritage assets and stewardship land by tracing transactions recorded in supporting schedules to the asset accountability system. The auditor may also perform additional procedures, such as inquiries and field inspections. Usually, there are few changes to heritage assets and stewardship land during the year, and the auditor should investigate significant changes in balances. Since cutoff errors are not a major risk in establishing the completeness of recorded assets, if the auditor is satisfied with the beginning balances and verifies the acquisition and withdrawals of the current period, the auditor may have sufficient appropriate evidence about the ending balance.

.33 **Rights and obligations:** To determine the entity's ownership rights to record property as heritage assets and stewardship land, the auditor may do the following:

- Examine FASAB definitions of heritage assets and stewardship land, historical documents, and compliance procedures to determine the entity's ownership rights to record the property as heritage assets and stewardship land (as opposed to another federal entity).
- Examine documents, such as public records, property deeds, property tax bills (or exceptions), and other documents specific to the entity's documentation of legal ownership, to determine legal ownership. Documentation of ownership may be in a variety of formats, including permits, reports, and associated records that indicate where natural resources were recovered from public lands.
- Examine the entity's statements showing the assets' direct link to the entity's mission. Auditors may perform this procedure to gain more information about the entity's assets, rather than to determine which assets are properly included in the heritage assets and stewardship land category.

.34 **Accuracy:** To determine the accuracy of unit schedules for heritage assets and stewardship land additions and deletions, the auditor may do the following:

- Agree subsidiary ledger for additions and deletions to controlling accounts and examine detailed supporting documentation.
- Determine the propriety and accuracy of recorded transfers and donations, examine subsidiary ledgers, and agree them to detailed supporting documentation.
- Recompute footings and extensions in detailed documentation and summary analysis.

.35 **Classification:** To determine the aggregation, unitization, and categorization of physical units for heritage assets and stewardship land, the auditor may do the following:

- Examine entity documentation and methodology for categorization of units to determine whether the entity's aggregation/categorization and physical unit of measure are appropriate, based on the entity's mission, how the entity views the asset for management purposes, types of heritage assets, and materiality considerations. The entity should designate asset categories that are meaningful and reflect how it views assets for management purposes. It would also be helpful if entities documented the reasoning for categorization.
- Determine whether the results of testing and the nature of misstatements indicate that the auditor should reassess the risk of material misstatement and revise procedures.

Reporting Phase

.19 To determine the proper reporting, presentation, and disclosure of heritage assets and stewardship land, the auditor may review the balance sheet for the appropriate note reference and determine whether these items are properly reported and correctly classified as heritage assets and stewardship land in accordance with SFFAS 29. The auditor should also read the note disclosures and determine whether the entity reported the following:

- Disclosure of how the heritage assets and stewardship land relate to the entity's mission.
- Description of stewardship policies.
- Description of each major category of heritage asset and stewardship land use.
- Disclosure of the number of physical units by major category, the number of physical units by major category acquired and withdrawn, and a description of the major methods of acquisition and withdrawal.
- Discussion of multiuse heritage assets.
- A reference to deferred maintenance and repairs information reported as RSI. See AU-C 730 for the procedures the auditor should apply to RSI.

The auditor should also summarize the results and determine if adjustments are necessary, and conclude on whether heritage assets and stewardship land have been adequately accounted for and properly disclosed in the financial statements.

941 – Auditing the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts

.36 The Statement of Social Insurance is required to be audited, along with certain social insurance disclosure information, while other social insurance information is to be presented as unaudited RSI. The Statement of Changes in Social Insurance Amounts is required to be audited and reconciles the beginning and ending open group measures presented in the Statement of Social Insurance and presents the components of the changes in the open group measure from the end of the previous reporting period.[114] FAM 941 provides auditors with guidance for auditing the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts in accordance with GAGAS.[115] Auditors should also see the AICPA's Statement of Position (SOP) 04-1, *Auditing the Statement of Social Insurance*, and the AICPA's Clarified Statements on Auditing Standards (SAS) Nos. 122 through 127.

.37 FASAB has established accounting requirements for the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts through various SFFAS requirements. The financial statements affected are those of federal entities responsible for Social Security, Medicare, Railroad Retirement, and Black Lung programs as well as the consolidated financial statements of the federal government. For periods beginning after September 30, 2005, the Statement of Social Insurance is to be presented as a basic financial statement with the underlying significant assumptions included in notes that are presented as an integral part of the financial statements. For periods beginning after September 30, 2010, the Statement of Changes in Social Insurance Amounts is to be presented as a basic financial statement with the underlying significant changes to be disclosed on the face of the Statement of Changes in Social Insurance Amounts or included in the notes that are presented as an integral part of the financial statements.

.38 FASAB standards for social insurance programs require entities' financial statements and the U.S. consolidated federal financial statements to report the following for the Statement of Social Insurance:

vvv. The estimated present value of the income/revenue to be received from or on behalf of the following groups during a projection period sufficient to illustrate the long-term sustainability of the social insurance programs for

- current participants who have not yet attained retirement age,
- current participants who have attained retirement age, and
- individuals expected to become participants.

www. The estimated present value of the benefit payments to be made during that same period to or on behalf of the groups listed in item (a) above.

[114]The open group measure is the net present value of all expenditures to or on behalf of the open group population (persons who, as of a valuation date, are or will be participants in a social insurance program) and all contributions or other income/revenue from or on behalf of the open group population over a given projection period.

[115]Collectively, the Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and the Statement of Long-Term Fiscal Projections (only applicable at government-wide level) are referred to as sustainability financial statements.

xxx. The estimated net present value of the cash flows during the projection period (the income/revenue described in item (a) above over the expenditures described in item (b) above, or the expenditures described in item (b) above over the income/revenue described in item (a) above).

yyy. In notes to the Statement of Social Insurance, the following:

1. The accumulated excess of all past cash receipts, including interest on investments, over all past cash disbursements within the social insurance program, represented by the fund balance at the valuation date.
2. An explanation of how the net present value referred to in item (c) above is calculated for the closed group.[116]
3. Comparative financial information for items (a), (b), (c), and d (1) above for the current year and for each of the 4 preceding years.
4. The significant assumptions used in preparing the estimates.

e. FASAB standards for social insurance programs require entities and the consolidated federal financial statements to report for the Statement of Changes in Social Insurance Amounts:

1. The significant components of the changes in the open group measure from the end of the previous reporting period and the amounts associated with each type of change.
2. The reasons for the changes, including explanations of the most significant changes, in notes on the face of the Statement of Changes in Social Insurance Amounts or in the notes that are presented as an integral part of the financial statements.
3. An explanation of the reasons for the most significant changes in the open group measure during the reporting periods in the entity's MD&A. In addition, the entity's MD&A should discuss the closed group measure in the narrative and explain how it differs from the open group measure and the significance of the difference.

Accounting and Reporting Information

.39 FASAB has issued the following standards for reporting on social insurance programs of federal entities.

- **SFFAS 17**, *Accounting for Social Insurance*, effective for periods beginning after September 30, 1999, presents accounting standards for federal social insurance programs covering Social Security (Old-Age, Survivors, and Disability Insurance), Medicare (Hospital Insurance (Part A), Supplementary Medical Insurance (Part B), and Prescription Drug Benefit (Part D)),[117] Railroad Retirement, and Black Lung benefits and Unemployment Insurance. Social insurance programs covered by SFFAS 17 have five common characteristics:

[116]The *closed group* is defined as those persons who, as of a valuation date, are participants in a social insurance program as beneficiaries, covered workers, or payers of earmarked taxes or premiums.

[117]The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173, 117 Stat. 2066 (Dec. 8, 2003), created a new prescription drug benefit under Medicare Part D, which is also covered by SFFAS 17.

1. financing from participants or their employers,
2. eligibility from taxes or fees paid and time worked in covered employment,
3. benefits not directly related to taxes or fees paid,
4. benefits prescribed in law, and
5. program intended for the general public.

- **SFFAS 25**, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, requires the Statement of Social Insurance to become a basic audited financial statement. It also provides that certain information about social insurance programs required by SFFAS 17 be reported in audited notes or as unaudited RSI, rather than as unaudited required supplementary stewardship information. In accordance with SFFAS 28, the effective period was deferred 1 year from fiscal year 2005 to fiscal year 2006.
- **SFFAS 26**, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, requires that the underlying significant assumptions relating to the Statement of Social Insurance be included in audited notes with other information required by SFFAS 17—including the sensitivity analysis—be presented as RSI, except to the extent that the preparer elects to include some or all of that information in audited notes. In accordance with SFFAS 28, the effective period was deferred 1 year from fiscal year 2005 to fiscal year 2006.
- **SFFAS 28**, *Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS 25 and 26*, deferred the effective dates of SFFAS 25 and SFFAS 26 for 1 year to the fiscal year ended September 30, 2006.
- **SFFAS 37**, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, effective for periods beginning after September 30, 2010, requires that in addition to the current requirements of SFFAS 17, entities that present a Statement of Social Insurance
  - include in one section of the MD&A information about costs, assets, liabilities, social insurance commitments, budget flows, and long-term fiscal projections;
  - include in the MD&A a table or other singular presentation of key measures drawn from the basic financial statements;
  - add a section to the Statement of Social Insurance that summarizes the net present values of cash flows and presents certain subtotals and totals;
  - present a Statement of Changes in Social Insurance Amounts that indicates the reasons for the changes in the open group measure from the end of the previous reporting period; and

- when comparative financial statements are presented, presentation of two Statements of Changes in Social Insurance Amounts, one for the current reporting period, and one for the previous reporting period.

SFFAS 17 is amended to conform to changes in SFFAS 37.

.40 Auditors generally should follow the FAM methodology contained in the planning, internal control, testing, and reporting phases in FAM 200 through 500 and the audit guidance included in SOP 04-1. SOP 04-1 provides guidance for auditing the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts.[118]

.41 As permitted by AU-C 600, a group auditor may fulfill the requirements of SOP 04-1 by using work that other component auditors have performed in conformity with the provisions of SOP 04-1. For example, for the Old-Age Survivors and Disability Insurance (OASDI) program, the group auditor of the consolidated financial statements of the U.S. government may use the work and report of the component auditor of the Social Security Administration's Statement of Social Insurance and related Statement of Changes in Social Insurance Amounts.

.42 According to AU-C 540.06, the auditor should obtain sufficient appropriate audit evidence about whether accounting estimates in the financial statements are reasonable and related disclosures in the financial statements are adequate. The auditor should obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates (AU-C 540.08):

- the requirements of the applicable financial reporting framework relevant to accounting estimates, including related disclosures (SOP 04-1, para. .02);
- how management identifies those transactions, events, and conditions that give rise to the need for accounting estimates to be recognized or disclosed in the financial statements (SOP 04-1, paras. .07 and .12 through .15); and
- how management makes the accounting estimates and the data on which they are based, including
  i. the method(s), including when applicable, the model, used in making the accounting estimate (SOP 04-1, paras. .07 and .15);
  ii. relevant controls (SOP 04-1, paras. .08 and .24 through .27);
  iii. whether management has used a specialist (SOP 04-1, paras. .16 through .21);
  iv. the assumptions underlying the accounting estimates, and whether there has been or ought to have been a change from the prior period in the method(s) or assumption(s) for making the accounting estimates and, if so, why (SOP 04-1, para. .37); and
  v. whether and, if so, how management has assessed the effect of estimation uncertainty (SOP 04-1, paras. .28 and .29).

[118]The user of SOP 04-1 should consider updates to the relevant accounting and auditing standards, including the AICPA's SAS Nos. 122 through 127.

.43 In auditing the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts, if the auditor has assessed management's controls over the estimation process to be effective, the auditor may determine that the most practicable and efficient approach is to test management's process. However, if the auditor finds that controls over the estimation process are ineffective, the auditor should consider whether it is practicable to take one of the following actions:

- Develop an independent expectation of the estimate, or portions of the estimate, to corroborate management's estimate.
- Obtain competent evidence from outside the audited entity's process that would be sufficient to support the assertions in the Statement of Social Insurance and the changes in the Statement of Changes in Social Insurance Amounts. If it is not practicable to mitigate the effects of the ineffective controls through substantive procedures such as these, the auditor's report on the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts should be modified (SOP 04-1, para. 9).

.44 The auditor's objective when auditing the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts is to obtain sufficient, competent evidential matter to provide reasonable assurance that

- the estimates presented in both statements are reasonable in the circumstances and
- the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts are presented fairly, in all material respects, in conformity with U.S. GAAP, including adequate disclosure.

.45 If the auditor does not possess the level of competence in actuarial science to qualify as an actuary, the auditor generally should obtain the services of an independent actuary to assist the auditor in planning and performing auditing procedures.[119] Generally, the auditor will need the assistance of an independent actuary in performing various procedures during all phases of the audit and related to all elements of the estimates.[120]

Key Implementation Issues

Determining Materiality

.46 In FAM 230, materiality is one of the factors the auditor uses to determine the nature, timing, and extent of procedures. Materiality represents the magnitude of an omission or misstatement of an item, or an aggregation of items, in the financial statements that in light of surrounding circumstances makes it probable that the judgment of a reasonable person relying on the information would have

[119]The actuary can either be under contract with the independent auditor or employed by the independent audit organization. In either case, the actuary performing services for the auditor would need to meet the independence standards of GAGAS, which are applicable to audits of Statements of Social Insurance and Statements of Changes in Social Insurance Amounts.

[120]AICPA SOP 04-1, *Auditing the Statement of Social Insurance,* (November 22, 2004), para. 10, and AU C Section 620, *Using the Work of an Auditor's Specialist, (*effective for audits of financial statements for periods ending on or after December 15, 2012).

been changed or influenced by the inclusion or correction of the item. Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial, certain misstatements or omissions could have a material impact on or warrant disclosure in the financial statements for qualitative reasons.

.47 Auditors should use professional judgment in determining the appropriate element of the financial statements to use as a materiality benchmark. Auditors generally consider materiality in the context of the financial statements taken as a whole, taking into account both quantitative as well as qualitative attributes of the financial statements. Auditors should exercise due professional care when setting the materiality benchmark, carefully assessing the information gained during the planning phase of the audit and the needs of a reasonable person relying on the financial statements (SOP 04-1, para. 22).

.48 For certain federal entities, amounts reported in the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts may vary significantly from the amounts reported in the other basic financial statements or may differ significantly on a qualitative basis. In such cases, it may not be appropriate to establish a single materiality threshold for the entire set of financial statements. Instead, the auditor should use a separate materiality level when planning and performing the audit of the Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and related disclosures (SOP 04-1, para. 23).

.49 The auditor generally should establish materiality in relation to the element of the financial statements that is most significant to the primary users of the statements (the materiality benchmark—see FAM 230.08). The auditor uses professional judgment in determining the appropriate element of the financial statements to use as the materiality benchmark. Also, since the materiality benchmark may be based on unaudited preliminary information determined in the planning phase, the auditor may estimate the year-end balance(s) of the materiality benchmark(s). To provide reasonable assurance that sufficient audit procedures are performed, any estimate of the materiality benchmark(s) should use the low end of the range of estimated materiality so that sufficient testing is performed.

.50 SFFAS 17 includes a discussion of SFFAC No. 1, *Objectives of Federal Financial Reporting*, which established four major reporting objectives in applying accounting standards:

1. budgetary integrity,
2. operating performance,
3. stewardship, and
4. systems and controls.

SFFAC No. 1 provides useful information to assist the auditor in determining an appropriate materiality benchmark. For example, while all four of the objectives are important, SFFAS 17 states that objectives 2 and 3 directly impact the social insurance standards.

.51 Objective No. 2 of SFFAC No. 1 states that federal financial reporting should assist report users to evaluate:

- service efforts, costs, and accomplishments of the reporting entity,
- the manner in which these efforts and accomplishments have been financed, and
- the management of the entity's assets and liabilities.

SFFAS 17 indicates that information about social insurance that is relevant to this objective includes the cost of the program as well as long-range estimates (and ranges of estimates) of future costs and other obligations. Estimates of future costs highlight the cost impact of changes in benefit levels as well as changes in economic and demographic conditions, such as the cost of health care and life expectancies.

.52 The third objective of SFFAC No. 1 states that federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Thus, federal financial reporting should provide information that helps the reader to determine whether

- the government's financial position has improved or deteriorated over the period,
- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
- government operations have contributed to the nation's current and future well-being.

.53 Fundamental questions about social insurance programs that can be addressed by accounting standards include whether

- programs are sustainable as currently constructed,
- the government's financial condition has improved or deteriorated as a result of its efforts to provide for these and other programs, and
- the likelihood that these programs will be able to provide benefits at current levels to those who are planning on receiving them.

The information required by this standard, taken as a whole, will help users make this assessment while acknowledging the complexity of the programs and the uncertainty of long-term projections.

.54 In determining the materiality benchmark for planning and performing audits of an entity's Statement of Social Insurance and related Statement of Changes in Social Insurance Amounts, the auditor should evaluate the actuarial present value of the estimated future

a. income/revenue (excluding interest[121]) received from or on behalf of all current and future participants (estimated future revenue),

b. expenditures for or on behalf of all current and future participants (estimated future expenditures), and

c. balance of estimated future income/revenue (excluding interest) over/(under) estimated future expenditures (actuarial balance).

.55 The auditor may determine that the actuarial balance is the most significant element of the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts to users of the financial statements. If so, the materiality benchmark would be the actuarial balance. However, the auditor may determine that it is more appropriate to select a materiality benchmark of either the estimated future incomes/revenues or the estimated future expenditures.

The auditor's basis for the selection of the materiality benchmark(s) generally should be documented, including consideration given to other possible measures or separate benchmarks for estimated future income/revenue and estimated future expenditures. Auditors generally should follow the guidance in FAM 230.11 through .13 in determining materiality for planning and performing audits of entity Statements of Social Insurance and Statements of Changes in Social Insurance Amounts.

Obtaining Management's Representations

.56 Entity management is responsible for preparing the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts and underlying estimates and changes in conformity with U.S. GAAP. Management is also responsible for the accuracy and completeness of the Statement of Social Insurance (SOP 04-1, para. 5) and the Statement of Changes in Social Insurance Amounts. Therefore, management should determine a reasonable estimate of the economic and demographic conditions that will exist in the future.[122] Because estimates in the Statement of Social Insurance and Statement of Changes in Social Insurance Amounts are based on subjective as well as objective factors, management should use judgment to estimate amounts included in these statements. Management's judgment may be based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist.

.57 Consistent with FAM 1001, the auditor should obtain specific representations relating to the Statement of Social Insurance and to the related Statement of Changes in Social Insurance Amounts. For an audit of an entity's Statement of Social Insurance and related Statement of Changes in Social Insurance

[121]Income/revenue (excluding interest) includes payroll taxes from employers, employees, and self-employed persons; revenue from federal income taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the Treasury's General Fund.

[122]Para. 25 of SFFAS 17, *Accounting for Social Insurance*, states, in part, "The projections and estimates used should be based on the entity's best estimates of demographic and economic assumptions, taking each factor individually and incorporating future changes mandated by current law." Certain entities prepare social insurance information using assumptions that a board of trustees prepares. Auditors should consider such assumptions to represent "reasonable estimates" if the trustees have characterized them as such and entity management has determined them to be reasonable. With respect to these assumptions, the auditor should perform audit procedures that are consistent with the guidance in paras. 9 through 37 of SOP 04-1.

Amounts, the representation letter should include, as applicable, representations included in FAM 1001 A, the example management representation letter.

Auditor's Report

.58 AU C 700 addresses the auditor's responsibility to form an opinion on the financial statements. It also addresses the form and content of the auditor's report issued as a result of an audit of financial statements. AU-C 9700 provides an illustration of an auditor's report containing an opinion on component financial statements that include sustainability financial statements.[123]

Planning Considerations for the Consolidated Government-Wide Report

.59 Pursuant to statutory requirements of the Government Management Reform Act of 1994 (GMRA), GAO serves as the group auditor of the consolidated financial statements of the U.S. government (CFS). GMRA also requires the Secretary of the Treasury, in coordination with the Director of OMB, to annually prepare and submit to the President and the Congress audited financial statements for the U.S. Government. Treasury collects financial statement information from federal entities through its Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) and Governmentwide Financial Report System (GFRS). Auditors for entities significant to the CFS[124] are responsible for providing opinions on these entities' closing package submissions to Treasury.[125]

.60 According to OMB audit guidance, the auditor should determine whether the closing package financial statements and related notes are fairly presented, in all material respects, in accordance with U.S. GAAP. The Statement of Social Insurance is to be presented as a basic financial statement in accordance with SFFAS 17, 25, 26, and 28. The Statement of Changes in Social Insurance Amounts is to be presented as a basic financial statement in accordance with SFFAS 37. TFM 2-4700, *Agency Reporting Requirements for the Financial Report of the United States Government (FR),* requires entities to provide the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts data and the underlying key assumptions and related changes in the FR Notes module in GFRS.

.61 TFM 2-4700 requires all remaining social insurance information, which is presented as Required Supplementary Information (RSI) in the FR, to be submitted through the Other FR Data module in GFRS.[126] The auditor should

[123]The sustainability financial statements do not articulate with the consolidated accrual-based financial statements. For that reason, the opinion on the sustainability financial statements ordinarily will not affect the opinion on the consolidated accrual-based financial statements.

[124]OMB and Treasury identified 39 federal entities that are significant to the U.S. government's fiscal year 2016 consolidated financial statements, including the 24 Chief Financial Officers Act of 1990 agencies. See *Appendix A* of the *2016 Financial Report of the United States Government* for a listing of the 39 entities.

[125]Closing packages contain audited consolidated, department-level financial statements and other information used to prepare the CFS, as specified in the TFM. The closing package methodology is intended to link federal entities' audited consolidated, department-level financial statements to certain statements of the CFS.

[126]The process and modules used by Treasury's Financial Reporting Division to prepare the consolidated Statement of Social Insurance and Statement of Changes in Social Insurance Amounts and accompanying notes, and required supplementary

- perform the procedures described in AU-C 730 as indicated in OMB audit guidance for the RSI social insurance information, and
- assess whether the RSI social insurance information contains omissions or material departures from FASAB guidelines. This includes whether the RSI social insurance information is materially consistent with management's responses to the auditor's inquiries about the methods of preparing the information, the closing package financial statements, and other knowledge obtained during the audit of the closing package financial statements.

.62 Actuarial projections of the annual cash inflow from all sources exclude net interest on intragovernmental borrowing/lending for both the component entity's Statement of Social Insurance[127] and the related Statement of Changes in Social Insurance Amounts and the U.S. government's consolidated Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts.[128] In addition, because paragraph 32 (1)(a) of SFFAS 17 only permits cash inflow from the public to be included in the long-range actuarial projection of cash inflow presented in the U.S. government's consolidated Statements of Social Insurance, TFM 2-4700 requires the (1) General Fund transfers for the Federal Supplementary Medical Insurance (Medicare Part B) program, (2) General Fund transfers for the Federal Supplementary Medical Insurance (Medicare Part D) program, and (3) financial interchange[129] income/revenue for the railroad retirement benefits program to be excluded from the present value of the long-range actuarial projections. SFFAS 17 states that expense and liability recognition for the consolidated government-wide entity are the same as for the component entities.[130]

Consequently, auditors responsible for these programs generally should determine the impact of the TFM requirement, which excludes the General Fund transfers and the financial interchange income/revenue from the present value of the long-range actuarial projections, on their auditing procedures. Auditors should plan and perform their department-level social insurance-related audit procedures to obtain a reasonable basis for expressing an opinion on the closing package financial statements, which include the Statement of Social Insurance and the related Statement of Changes in Social Insurance Amounts.

information included in the *Financial Report of the United States Government* may change in future years, based on changes that the Financial Reporting Division may make to TFM 2-4700.

[127]SFFAS 17, para. 27 (a)(1).

[128]SFFAS 17, para. 32 (a)(1).

[129]Financial interchange income/revenue consists of transfers from the Social Security trust funds under a financial interchange between the railroad retirement and the Social Security systems. While the railroad retirement system has remained separate from the Social Security system, the two systems were closely coordinated with regard to earnings credits, benefit payments, and taxes. The purpose of this financial coordination is to place the Social Security OASDI and Hospital Insurance trust funds in the same position they would have been in if railroad retirement services were covered by the Social Security Act and Federal Insurance Contributions Act.

[130]SFFAS 17, para. 30.

SECTION 1000 Reporting Implementation Guidance

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1001 – Management Representations

.63 This section deals with the management representations that the auditor **should** obtain from management as part of the audit, as described in AU-C 580, AU-C 940, OMB audit guidance, FAM 280, and FAM 550. It covers representations about

- financial statements;
- internal control over financial reporting;
- fraud;
- CFO Act agencies' financial management systems' substantial compliance with the three requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA);
- compliance with applicable provisions of laws, regulations, contracts, and grant agreements;
- social insurance;
- budgetary and fund restrictions.

.64 Written representations from management ordinarily confirm oral representations given to the auditor, indicate and document the continuing appropriateness of those representations, and reduce the possibility of misunderstanding. Management representations are not a substitute for obtaining other audit evidence.

.65 If other audit evidence contradicts a representation, the auditor should investigate the circumstances and evaluate the reliability of the representation. The auditor should also determine whether it is appropriate to rely on other management representations. In addition, if management does not provide written representations, the auditor should discuss the matter with management. In both cases, the auditor should reconsider the assessment of the competence, integrity, ethical values, or diligence of management or of management's commitment to, or enforcement of, these and should determine the effect that this may have on the reliability of representations and audit evidence in general (AU-C 580.23). The auditor should also determine whether this may indicate a scope limitation sufficient to preclude an unmodified opinion (AU-C 580.24 and .26). See FAM 580 for additional reporting guidance. (AU-C 580.25)

.66 The specific representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. These representations apply to all the financial statements and all periods covered by the audit report. In addition to the representations in the AICPA standards, the auditor should determine the need to obtain representations on other matters based on the circumstances of the audited entity. Also, the auditor should not include inapplicable representations listed in the example representation letter in FAM 1001 A and should customize the letter to the situation of the entity being audited.

The auditor should determine the need for additional customizing of the example representation letter in FAM 1001 A and for the additional representations in FAM 1001.21 to .26. Many of the representations may have to be qualified, especially in an initial audit or in later audits where significant problems remain. For instance, where the example representation letter states that there are no violations of laws or regulations, the entity may need to add "except as follows:" at the end of the statement and describe the violations.

.67 The auditor should obtain the management representation letter from the highest level of the audited entity. The auditor should decide who to ask to sign the management representation letter. Signers should be officials who, in the auditor's view, are responsible for and knowledgeable, directly or through others, about the matters in the representation letter. These officials typically would be the head of the federal entity and the CFO or equivalent. The auditor should obtain separate management representation letters from any component units for which the auditor will issue separate reports.

.68 The auditor should ask management to prepare the representation letter on the audited federal entity's letterhead addressed to the auditor (AU-C 580.21). The auditor should ensure that the representations are for all financial statements and the period(s) referred to in the auditor's report (AU-C 580.20). The date of the written representations should be as of the date of the auditor's report (AU-C 580.20). The audit is complete when the auditor has enough evidence and has applied enough quality controls (including supervisory, first partner, and second partner review) to be ready to sign the audit report. To be sure that the letter is ready in time, the auditor generally should provide a draft letter to management early in the audit and update it for circumstances found throughout the audit.

.69 Especially for large audited entities, management, in agreement with its auditor, should specify a materiality threshold for the management representation letter, below which items would not be reported. OMB audit guidance states that the management representation letter shall specify management's materiality threshold used for reporting items in the management representation letter. It also notes that management and the auditor should reach an understanding on a materiality level. If no threshold is stated, management should note all exceptions in the representation letter.

The auditor should be satisfied that such a materiality threshold is so far below performance materiality that even many items below this level would not, in the aggregate, approach performance materiality. For example, a threshold that is 5 percent (or less) of performance materiality may be sufficiently low. The materiality level may be different for different representations and would not apply to those representations not directly related to amounts in the financial statements (such as the representation about responsibility for the statements).

Written Representations on Management's Responsibilities

.70 FAM 1001 A (which incorporates AU-C 580.A35) lists management representations that the auditor should obtain in a GAGAS audit, if applicable. These generally relate to management acknowledging its responsibility for the financial statements and its belief that the financial statements are fairly presented in conformity with U.S. GAAP, and financial information is complete with appropriate recognition, measurement, and disclosure.

The following paragraphs, FAM 1001.09 through .20, provide a description of required representations, which are incorporated in the example representation letter at FAM 1001 A:

Representations Relating to Preparation and Fair Presentation of the Financial Statements

.71 Management's representations should acknowledge management's responsibilities for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. Common presentation and disclosure items are items 1 through 19. (AU-C 580.10)

Representations Relating to Information Provided and Completeness of Transactions

.72 Management's representations should acknowledge that (a) management has provided the auditor with all relevant information and access, as agreed upon in the terms of the audit engagement, and (b) all transactions have been recorded and are reflected in the financial statements. (AU-C 580.11) See example items 6 and 8.

Representations Relating to Internal Control

.73 Internal control representations, when the auditor expresses an opinion on internal control over financial reporting, are found in AU-C 940.57. These representations, examples for which are provided in FAM 1001 A items 20 through 30, relate to management

zzz. acknowledging its responsibility for establishing and maintaining effective internal control over financial reporting (item 20);

aaaa. stating that management has performed an evaluation of the effectiveness of the entity's internal control over financial reporting and specifying the control criteria (item 23);

bbbb. stating that management did not use the auditor's procedures performed during the integrated audit as part of the basis for its assessment (item 24);

cccc. stating its assessment about the effectiveness of the entity's internal control over financial reporting based on the criteria as of a specified date (item 23);

dddd. stating that management has disclosed to the auditor all deficiencies in the design or operation of internal control over financial reporting, including

separately disclosing to the auditor all such deficiencies that it believes to be significant deficiencies or material weaknesses in internal control over financial reporting (item 26);

eeee. stating whether the significant deficiencies and material weaknesses identified and communicated to management and those charged with governance during previous engagements have been resolved and specifically identifying any that have not (item 28); and

ffff. stating whether there were, subsequent to the date being reported on, any changes in internal control over financial reporting or other conditions that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to significant deficiencies and material weaknesses (item 30).

.74 For bullets 2 and 4 above in FAM 1001.11, entities may use criteria established under FMFIA and OMB Circular No. A-123 in their FMFIA internal control assessments. GAO's *Standards for Internal Control in the Federal Government* (GAO-14-704G) were established as standards for federal entities to follow. These standards incorporate concepts and principles from the private sector guidance *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Federal entities should summarize in their representation letters any material weaknesses relating to financial reporting (including safeguarding) and compliance (including budget).

Example wording for the representations, where management asserts the effectiveness of internal control over financial reporting, is provided in FAM 1001 A (item 25). If there are material weaknesses, management should include a brief description of them in its representation letter and modify its assessment accordingly.

Representations Relating to Fraud

.75 Internal control over financial reporting representations related to fraud can be found in AU-C 240 and AU-C 940. These representations, examples of which are provided in FAM 1001 A (items 31 through 37), relate to management

gggg. acknowledging its responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud (AU-C 580.12.a);

hhhh. disclosing the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud (AU-C 580.12.b);

iiii. disclosing knowledge of any fraud or suspected fraud affecting the entity involving management or employees who have significant roles in internal control over financial reporting (including fraud that does not have a material effect on the entity's financial statements), or others where the fraud could have a material effect on the financial statements (AU-C 580.12.c, AU-C 940.57f); and

jjjj. disclosing knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others (AU-C 580.12.d).

Representations Relating to Applicable Laws, Regulations, Contracts, and Grant Agreements

.76 Management's representations should include that all instances of identified or suspected noncompliance with laws, regulations, contracts, and grant agreements applicable to the entity whose effects should be considered when preparing the financial statements have been disclosed to the auditor (items 41 through 44) (AU-C 580.13).

Representations Relating to Uncorrected Misstatements

.77 Management's representations should acknowledge whether it believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the financial statements as a whole (item 9) (AU-C 580.14).

.78 The effect of any uncorrected financial statement misstatements per FAM 540 should be included in a schedule and attached to the representation letter. (For this representation, the auditor may tailor the example schedule in FAM 595 C by removing the auditor's conclusions.) (AU-C 580.14)

Representations Relating to Litigation and Claims

.79 Management's representations should acknowledge that all known actual or possible litigation and claims whose effects should be considered by management when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework (items 15 and 16) (AU-C 580.15).

Representations Relating to Estimates

.80 Management's representations should acknowledge whether it believes that significant assumptions it used in making accounting estimates are reasonable (item 5) (AU-C 580.16).

Representations Relating to Related-Party Transactions

.81 Management's representations should acknowledge that it has disclosed to the auditor the identities of the entity's related parties and all the related-party relationships and transactions of which it is aware and it has appropriately accounted for and disclosed such relationships and transactions (items 12 and 13) (AU-C 580.17).

Representations Relating to Subsequent Events

.82 Management's representations should acknowledge that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed (item 17) (AU-C 580.18).

Additional Written Representations on the Financial Statements

.83 The auditor should determine whether circumstances require that additional descriptive items be included in the representation letter, especially as support

for conclusions that the auditor makes in the report. This is important when the corroborating information that can be obtained by procedures other than inquiry is limited (AU-C 580.19). Examples of additional representations that may be appropriate depending on an entity's business or industry are given in AU-C 580.A36 and in paragraphs FAM 1001.22 through .26 below.

.84 Intragovernmental Activities – OMB audit guidance has emphasized the importance of identifying intragovernmental transactions and their reconciliations for federal entities and their components (item 19).

.85 Financial management systems' substantial compliance with the three requirements of FFMIA – FFMIA requires an auditor auditing the financial statements of a CFO Act agency to report whether the agency's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards (U.S. GAAP), and (3) the *U.S. Standard General Ledger* (USSGL) at the transaction level. To report in accordance with FFMIA, the auditor should obtain representations from management as to the agency's financial management systems' compliance with these requirements.

.86 The auditor should obtain representations that management is responsible for having its systems comply with the FFMIA requirements, stating that it has assessed the systems' compliance, stating the criteria used, and asserting the systems' substantial compliance (or lack thereof). The criteria are the requirements in OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act*. The federal financial management system requirements are further described, including authoritative references, in the *Treasury Financial Manual*, volume 1, part 6, chapter 9500, *Revised Federal Financial Management System Requirements*. (Items 38 – 40).

.87 Statement of Social Insurance and Changes in Social Insurance Amounts – FASAB standards require a *Statement of Social Insurance* for certain entities. See AICPA publication SOP 04-1, *Auditing the Statement of Social Insurance* (AU-C 580.19; SOP 04-1 § 36) (items 45-53).

.88 Budgetary and Restricted Funds – OMB audit guidance includes a representation by management on the consistency of budgetary data (item 54).

.89 Dedicated Collections –SFFAS 43, *Funds from Dedicated Collections*, requires that all material dedicated collections and all other material restricted funds be presented and/or, disclosed in the financial statements](item 55).

Effect of Change in Management on Representation Letter

.90 Sometimes management is reluctant to sign representations for periods when it did not manage the entity. The auditor may explain to management that by issuing the financial statements, it is making the assertions implicit in the financial statements. Additionally, the auditor may discuss the following with management in order to obtain representations when a change in management occurs:

kkkk. Auditing standards require management representations covering all financial statements presented.

lll. In the engagement letter (FAM 215), entity management indicated that it would provide certain representations covering all financial statements presented.

mmmm. New executives may consult with prior management and appropriate staff members who were present during the period audited to determine whether the representations that officials will sign are complete and accurate.

nnnn. Representations are made to the best of the signer's knowledge and belief.

oooo. Not signing will result in a scope limitation and disclaimer of the auditor's opinion.

1001 A – Management Representation Letter Example

[Entity Letterhead]
[Date of Auditor's Report and Completion of the Audit]
[Name and Title of Audit Organization Head]
[Address of Audit Organization]
Dear **[Name of Audit Organization Head]**:
We are providing this letter in connection with your integrated **[omit if not expressing an opinion on the effectiveness of internal control over financial reporting]** audits of the balance sheets of **[name of entity]** as of September 30, 20X2, and 20X1, **[or the dates of the audited financial statements]** and the related statements of net costs, changes in net position, budgetary resources, and custodial activity **[if applicable]** for the years then ended, and **[if applicable]** the **[years presented]** statements of social insurance (SOSI) and the statements of changes in social insurance amounts (SCSIA) for the years ended **[dates presented]**, and the related notes to the financial statements, hereinafter referred to as the financial statements.
Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that in the light of surrounding circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
Except where otherwise stated below, immaterial matters less than $**[Insert amount]** collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements. Such quantitative materiality considerations do not apply to representations that are not directly related to amounts included in the financial statements, required supplementary information (RSI) **[if applicable]**,[131] required supplementary stewardship information (RSSI) **[if applicable]**,[132] and other information **[if applicable]**.[133]
We confirm, as of **[date of auditor's report]**, the following representations made to you during your audits. These representations pertain to both years' financial statements and update the representations we provided in the prior year.

Financial Statements, Supplementary Information, RSI, RSSI, and Other Information

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated **[insert date of engagement letter]**, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP), issued by **[name of standard setter, such as Federal Accounting Standards Advisory Board or Financial Accounting Standards Board]**. The financial statements are fairly presented in accordance with U.S. GAAP. **[If there are departures from generally accepted**

[131]RSI consists of **[insert description]**.
[132]RSSI consists of **[insert description]**.
[133]Other information consists of **[insert description]**.

accounting principles, this statement should be modified to disclose all known instances of departure.]

2. We have fulfilled our responsibility for the presentation of supplementary information in accordance with the applicable criteria and prescribed guidelines and the following: **[Delete this item if the auditor is not engaged to report on supplementary information.]**
    a. The supplementary information is fairly presented in accordance with the applicable criteria and prescribed guidelines.
    b. There are no changes in the methods of measurement or presentation of the supplementary information from the prior year that have not been disclosed to you, including the reasons for such changes. **[If there were no such changes, the underlined text should be omitted.]**
    c. There are no significant assumptions or interpretations underlying the measurement or presentation of the supplementary information that have not been disclosed to you. **[If there are no assumptions or interpretations, the underlined text should be omitted.]**
3. **[If applicable]** We have fulfilled our responsibilities for the measurement, preparation, and presentation of the RSI and RSSI in accordance with prescribed guidelines established in U.S. GAAP.
    a. The RSI and RSSI are measured and presented in accordance with prescribed guidelines in U.S. GAAP and are consistent with the financial statements and contain no material misstatement of fact.
    b. There are no changes in the methods of measurement or presentation of the RSI and RSSI from the prior year that have not been disclosed to you, including the reasons for such changes. **[If there were no such changes, the underlined text should be omitted.]**
    c. There are no significant assumptions or interpretations underlying the measurement or presentation of the RSI and RSSI that have not been disclosed to you. **[If there are no assumptions or interpretations, the underlined text should be omitted.]**
4. **[If applicable]** We have fulfilled our responsibilities for the preparation and presentation of the Other Information (OI) included in documents containing the audited financial statements and auditor's report, and for ensuring the consistency of that information with the audited financial statements, RSI, and RSSI.
    a. The OI included in the document containing the audited financial statements and auditor's report is consistent with the financial statements, RSI, and RSSI and contains no material misstatement of fact.
    b. There are no changes in the methods of measurement or presentation of the OI from the prior year that have not been disclosed to you, including the reasons for such changes. **[If there were no such changes, the underlined text should be omitted.]**
    c. There are no significant assumptions or interpretations underlying the measurement or presentation of the OI that have not been disclosed to

you. **[If there are no assumptions or interpretations, the underlined text should be omitted.]**

5. Significant assumptions that we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have provided you with all relevant information and access, as agreed upon in the terms of the audit engagement letter, including the following:
    a. access to all information that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
    b. additional information that you have requested from us for the purpose of the audit, including, but not limited to
        i. minutes of meetings, or summaries of actions of recent meetings for which minutes have not been prepared, of the **[Board of Directors or other similar bodies of those charged with governance]** and
        ii. any communications from the Office of Management and Budget (OMB) concerning noncompliance with, or deficiencies in, financial reporting practices;
    c. unrestricted access to and full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence; and
    d. all reports obtained from **[Entity's]** service organizations.
7. Except as disclosed to you in writing, there have been none of the following:
    a. Circumstances that have resulted in communications from **[Entity's]** legal counsel reporting evidence of a material violation of law or breach of fiduciary duty, or similar violations by **[Entity]** of any agent thereof.
    b. Communications from regulatory/oversight agencies (such as OMB and GAO), other government entities or agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws or regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements, supplementary information, RSI, RSSI, and OI.
8. All transactions have been recorded in the accounting records and are reflected in the financial statements.
9. There are no uncorrected misstatements in the financial statements, as we have corrected the financial statements for any misstatements that you have identified during the audit and communicated to us. **OR** The effects of uncorrected financial statement misstatements in the attached summary are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. (Note: As discussed in AU-C 580.A12, if management believes that certain of the identified items are not misstatements, management's belief may be acknowledged by adding to the representation, for example, "We believe that items XX and XX do not constitute misstatements because (description of reason).")
10. **[Entity]** has satisfactory title to all owned assets, including stewardship land and heritage assets **[if applicable]**. There are no liens or encumbrances on these assets and no assets have been pledged.

11. We have no plans or intentions that may materially affect the recognition, measurement, presentation, disclosure, or classification of assets and liabilities.
12. We have disclosed to you the identities of **[Entity's]** related parties and all the related-party relationships and transactions of which we are aware.
13. Related-party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with U.S. GAAP and do not prevent the financial statements from achieving fair presentation.
14. Guarantees under which **[Entity]** is contingently liable have been properly reported or disclosed. **OR** There are no guarantees under which **[Entity]** is contingently liable that require reporting or disclosure in the financial statements.
15. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. **OR** We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
16. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in the financial statements in accordance with U.S. GAAP **[or other applicable financial reporting framework]**.
17. All events or transactions subsequent to September 30, 20X2 **[or date of latest audited financial statements]**, and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed in the financial statements.
18. We have properly recorded or disclosed in the financial statements changes in accounting principle that affect the consistency of the financial statements between the periods presented. **OR** There are no changes in accounting principle that affect the consistency of the financial statements between the periods presented.

Intragovernmental Activities

19. All intra-entity transactions and balances have been appropriately identified and eliminated for financial reporting purposes **[if applicable]**. All intragovernmental transactions and activities have been appropriately identified, recorded, and disclosed in the financial statements. We have reconciled [or have been unable to reconcile] material intragovernmental transactions and balances with the federal entity trading partners.

Internal Control

20. We acknowledge our responsibility for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
21. We have fulfilled our responsibility for maintaining effective internal control over financial reporting. We have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
22. We are responsible for evaluating the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act) [or other appropriate criteria], and providing our assessment of the effectiveness of internal control over

financial reporting as of [date of most recent financial statement presented[134]], based on our evaluation. (This item is optional if the auditor is not opining on internal control. Also, if the agency bases its internal control assessment on suitable criteria other than 31 U.S.C. 3512(c), (d), cite the criteria used (for example, *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)).)

23. We evaluated the effectiveness of **[Entity's]** internal control over financial reporting as of September 30, 20X2 **[or date of latest audited financial statements]**, based on the criteria established under 31 U.S.C. 3512 (c), (d) (commonly known as the Federal Managers' Financial Integrity Act). **[Entity's]** internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority; regulations; contracts; and grant agreements, noncompliance with which could have a material effect on the financial statements.

    [This item is optional if the auditor is not opining on internal control. Also, if the entity bases its internal control assessment on suitable criteria other than 31 U.S.C. 3512(c), (d), cite the criteria used (for example, COSO's *Internal Control—Integrated Framework*).]
24. We did not use **[auditor's]** audit procedures performed during the integrated audits of **[Entity's]** 20X2 and 20X1 financial statements as part of the basis for our assessment about **[Entity's]** internal control over financial reporting as of September 30, 20X2 **[or date of latest audited financial statements]**. **[Delete this item if the auditor is not opining on internal control.]**
25. Based on the evaluation in number 23, we conclude that as of September 30, 20X2 **[or date of latest audited financial statements]**, **[Entity's]** internal control over financial reporting was effective. **[Delete this item if the auditor is not opining on internal control.]**

    If there are material weaknesses: Based on the evaluation in number 23, we conclude that as of September 30, 20X2 **[or date of latest audited financial statements]**, [Entity's] internal control over financial reporting was not effective because of the effects of the material weaknesses discussed below **[or in an attachment]**.
26. We have disclosed to you all **[or, There are no]** deficiencies in the design or operation of internal control over financial reporting as of September 30, 20X2 [or date of latest audited financial statements], and we have separately disclosed all such deficiencies that we believe to be significant deficiencies or material weaknesses. **[Delete this item if the auditor is not opining on internal control.]**

[134]If the auditor is opining on internal control, the date will be the date of the opinion. However, management may choose to include this representation even if the auditor is not opining on internal control. If that occurs, the date will be the date of management's assurance statement in accordance with OMB Circular No. A-123.

27. We have disclosed to you all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting that existed at any time during the years ended **[date of most recent financial statement presented]**, and **[date of prior year financial statement presented]**, and indicated which deficiencies were corrected by **[date of most recent financial statement presented]**.
28. All significant deficiencies and material weaknesses identified and communicated to us by [auditor] in prior years' audits that remained unresolved as of September 30, 20X1 [or date of prior year audited financial statements], have been resolved OR [indicate specifically any that have not been resolved] as of September 30, 20X2 [or date of latest audited financial statements].
    If there were no significant deficiencies or material weaknesses: During the audit of the financial statements for the year ended September 30, 20X1 **[or date of prior year audited financial statements]**, **[auditor]** did not communicate any significant deficiencies or material weaknesses to us.
29. We have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
30. There have been no changes to internal control over financial reporting subsequent to September 30, 20X2 **[or date of latest audited financial statements]**, or other conditions that might significantly affect internal control over financial reporting. **[If there were changes, describe them, including any corrective actions taken with regard to any significant deficiencies or material weaknesses.]**

Fraud

31. We acknowledge our responsibility for the design, implementation, and maintenance of effective internal control to prevent and detect fraud.
32. We have fulfilled our responsibility for the design, implementation, and maintenance of internal control to prevent or detect fraud.
33. We have **[no knowledge of any] OR [disclosed to you all information that we are aware of regarding]** fraud or suspected fraud affecting the entity involving (1) management or employees who have significant roles in internal control over financial reporting, or (2) others when the fraud could have a material effect on the financial statements. **[If there is knowledge of any instances, including those that do not result in a material misstatement to the financial statements, describe them.]**
34. We have **[no knowledge of any] OR [disclosed to you all information that we are aware of regarding]** fraud or suspected fraud that resulted in a material misstatement to **[Entity's]** financial statements, RSI, or RSSI.
35. We have **[no knowledge of any] OR [disclosed to you all information that we are aware of regarding]** allegations of fraud or suspected fraud affecting the financial statements communicated by employees, former employees, or others.
36. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
37. We have no knowledge of any officer of **[Entity]**, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.

Compliance of Systems with FFMIA

[For CFO Act agencies subject to the Federal Financial Management Improvement Act of 1996 (FFMIA).]

38. We are responsible for implementing and maintaining financial management systems that comply substantially with federal financial management systems requirements, federal accounting standards (U.S. GAAP), and application of the *U.S. Government Standard General Ledger* (USSGL) at the transaction level.
39. We have assessed the financial management systems to determine whether they comply substantially with federal financial management systems requirements, federal accounting standards, and application of the USSGL at the transaction level. Our assessment was based on OMB guidance.
40. **[Entity's]** financial management systems complied substantially with federal financial management systems requirements, federal accounting standards, and application of the USSGL at the transaction level as of **[date of the latest financial statements]**.

    [If the financial management systems comply substantially with only one or two of the above elements, modify as follows:]

    As of **[date of financial statements]**, **[Entity's]** financial management systems comply substantially with **[specify which of the three elements comply substantially (e.g., federal accounting standards and application of the USSGL at the transaction level)]**, but did not comply substantially with **[specify which of the three elements do not comply substantially (e.g., federal financial management systems requirements)]**, as described below **[or in an attachment]**.

    [If the financial management systems do not comply substantially with any of these three elements, use the following paragraph:]

    As of **[date of financial statements]**, **[Entity's]** financial management systems do not comply substantially with the federal financial management systems requirements, applicable federal accounting standards, and application of the USSGL at the transaction level.

    [If the financial management systems do not comply substantially with one or more of the three elements, the representation should (1) identify the entity or organization responsible for the financial management systems that were found to not comply substantially with any of the three elements; (2) identify all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance; and (3) indicate whether the remediation plan that includes the resources, remedies, and intermediate target dates necessary to bring the agency's financial management systems into substantial compliance has been provided to the auditor or has not been prepared.]

Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements

41. We are responsible for complying with laws, regulations, contracts, and grant agreements applicable to **[Entity]**.
42. We have identified and disclosed to you all provisions of laws, regulations, contracts, and grant agreements applicable to **[Entity]**, noncompliance with which could have a material effect on the financial statements.

43. There are no instances of noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements applicable to **[Entity]** whose effects should be considered when preparing the financial statements**. OR** We have disclosed to you all instances of noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements applicable to **[Entity]** whose effects should be considered when preparing financial statements.
44. We are not aware of any violations of the Antideficiency Act that we must report to the Congress and the President (and provide a copy of the report to the Comptroller General) for the year ended September 30, 20X2, and through the date of this letter. **OR** We have reported all known violations of the Antideficiency Act to the Congress and the President (and provided a copy of the report to the Comptroller General) for the year ended September 30, 20X2, and through the date of this letter.

Statement of Social Insurance and Statement of Changes in Social Insurance Amounts

[For entities presenting a SOSI and an SCSIA, see AICPA publication SOP 04-1, *Auditing the Statement of Social Insurance* (SOP 04-1 § 39), which suggests the following management representations.]

45. Management is responsible for the assumptions and methods used in the preparation of the SOSI and SCSIA. Management agrees with the actuarial methods and assumptions that **[Entity's]** actuary used and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. Management did not give any instructions, or cause any instructions to be given to **[Entity's]** actuary with respect to values or amounts derived, and is not aware of any matters that have affected the objectivity of **[Entity's]** actuary. Management believes that the actuarial assumptions and methods used to measure the amounts in the SOSI and SCSIA for financial accounting purposes are appropriate in the circumstances.
46. Actuarial assumptions and methods used to measure the amounts in the SOSI and SCSIA for financial accounting and disclosure purposes represent management's reasonable estimates regarding future events based on demographic and economic assumptions and future changes mandated by law.
47. There were no material omissions from the data provided to **[Entity's]** actuary for the purpose of determining the actuarial present value of the estimated future income to be received and estimated future expenditures to be paid during the projection period sufficient to illustrate the long-term sustainability of **[name of the social insurance program]** as of **[dates of SOSI presented]**.
48. The SOSI covers a projection period sufficient to illustrate the long-term sustainability of the social insurance program.
49. Management provided the auditor with all the reports developed by external review groups appointed by **[Entity's or the program's trustees]** related to estimates in the SOSI.
50. The following matters relating to the SOSI have been disclosed properly in the notes to the financial statements:

a. The accumulated excess of all past cash receipts, including interest on investments, over all past cash disbursements within the social insurance program represented by the fund balance at the valuation date.
b. An explanation of how the net present value is calculated for the closed group.
c. Comparative financial information for items in paragraphs 2a, 2b, 2c, and 2d (1) of SOP 04-1, for the current year and for each of the preceding 4 years. (Note any preceding years that are unaudited.)
d. Significant assumptions used in preparing estimates.

51. There have been no changes in **[or, Changes in the following have been properly reported or disclosed in]** the actuarial methods or assumptions used to calculate amounts recorded or disclosed in the financial statements between the
    a. valuation dates (for example, of January 1, 20X2, and January 1, 20X1, and the valuation dates presented) or changes in the method of collecting data and
    b. valuation date (for example, of January 1, 20X2, and the other valuation dates presented) and the financial reporting date (of September 30, 20X2, and other financial reporting dates presented) or changes in the method of collecting data.
52. There have been no changes in [**or, Changes in the following have been properly reported or disclosed in]** laws and regulations affecting social insurance program income and benefits between the
    a. valuation dates (for example: January 1, 20X2, and January 1, 20X1, and other valuation dates presented) and
    b. valuation date (for example: January 1, 20X2, and other valuation dates presented) and the financial reporting date (of September 30, 20X2, and other financial reporting dates presented).
53. Accounting estimates applicable to the financial information of **[Entity]** included in the SOSI and SCSIA are based on management's reasonable estimate, after considering past and current events and assumptions about future events.

Budgetary and Restricted Funds [If Applicable]

54. The information presented in **[Entity's]** Statement of Budgetary Resources is reconcilable to the information submitted in its year-end Reports on Budget Execution and Budgetary Resources (SF-133s). This information will be used as input for the fiscal year 20X1 actual column of the Program and Financing Schedules reported in the fiscal year 20X3 *Budget of the U.S. Government*. Such information is supported by the related financial records and data.
55. We have disclosed in the financial statements all material dedicated collections as defined by Statement of Federal Financial Accounting Standards 43 **[if applicable]** and all other material restricted funds **[or indicate that there are no material dedicated collections or other material restricted funds that require disclosure in the financial statements]**.

Service Organizations [If Applicable]

56. Service organizations [and subservice organizations, if any] that we use have not reported to us, nor are we otherwise aware of, any (1) fraud; (2) noncompliance with applicable laws, regulations, contracts, or grant agreements; or (3) uncorrected

misstatements affecting the financial statements that are attributable to such service **[or subservice, if any]** organizations.
[If any such knowledge has been obtained, it should be described or specifically state how it was communicated to us.]

57. Service organizations **[and subservice organizations, if any]** that we use have not reported to us, nor are we otherwise aware of, any changes in the design, implementation, or operating effectiveness of internal controls at the service organizations **[or subservice organizations, if any]** subsequent to the effective dates of the service and subservice organizations' report(s) provided to you that could (1) affect the risks of material misstatement of the financial statements or (2) result in material misstatements of the financial statements arising from processing errors that would not be prevented, or detected and corrected, on a timely basis.
[If any such knowledge has been obtained, the letter should describe it or refer to how it was communicated to us, including the effects, if any, on the financial statements and/or the effectiveness of internal control over financial reporting, including specific identification of any internal control deficiencies that are considered to be material weaknesses or significant deficiencies.]

[Signed by Entity Head]
[Signed by Chief Financial Officer]

Enclosure(s)

1002 – Inquiries of Legal Counsel

.91 This section provides guidance on procedures for obtaining evidence that the financial accounting and reporting of contingencies regarding litigation, claims, and assessments conform with U.S. GAAP.[135] FAM 1002 discusses the accounting and reporting guidance and audit procedures for inquiries of legal counsel concerning litigation, claims, and assessments and includes an example audit program at FAM 1002 A, an example legal representation letter request at FAM 1002 B, and a legal representation letter response at FAM 1002 C.

Accounting and Reporting Guidance

.92 Entity management is responsible for implementing policies and procedures to identify, evaluate, account for, and disclose litigation, claims, and assessments as a basis for the preparation of financial statements in conformity with U.S. GAAP.

.93 SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, contains accounting and reporting standards for loss contingencies, including those arising from litigation, claims, and assessments.[136] Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, provides additional guidance related to claims to be paid through the Treasury Judgment Fund.[137] Statement of Financial Accounting Standards (FAS) No. 5, *Accounting for Contingencies*, also provides guidance for financial accounting and reporting for loss and gain contingencies for government corporations and for entities following U.S. GAAP for the private sector promulgated by the Financial Accounting Standards Board (FASB). The definition of probable for legal contingencies is essentially the same in FAS No. 5 and SFFAS 5.

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

- Remote: The chance of the future event or events occurring is slight.

[135]Reporting of contingencies includes environmental and disposal liabilities—a contingency that is often a significant issue for the federal government.

[136]SFFAS 7 has guidance for reporting claims for tax refunds. SFFAS 7 indicates that rather than recognizing probable claims and disclosing other claims in the notes to the financial statements, other claims for refunds that are probable should be included as supplementary information.

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

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

.95 The entity should recognize a liability and a related charge to expense for an estimated loss from a loss contingency only when[138]

- a past event or exchange transaction has occurred,
- a future outflow or other sacrifice of resources is probable, and
- the future outflow or sacrifice of resources is measurable.

.96 Disclosure of the nature of an accrued liability for loss contingencies, including the amount accrued, may be necessary for the financial statements not to be misleading. For example, if the amount recognized is large or unusual, the entity should determine whether to disclose the contingency. However, if no accrual is made for a loss contingency because one or more of the conditions in FAM 1002.05 are not met, the federal government and its entities should report contingent losses that involve situations where there is at least a reasonable possibility that a loss has been incurred.

The entity should disclose the nature of the contingency and provide an estimate of the possible liability or range of possible liability, if estimable, or a statement that such an estimate cannot be made. The reporting of contingent losses depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the likelihood of loss are remote, reasonably possible, and probable, as discussed in FAM 1002.04.

Contingent losses that are assessed as probable and measurable are accrued in the financial statements. Losses that are assessed to be at least reasonably possible are disclosed in the notes. For an overview of the standards that provide criteria for how federal agencies are to account for contingent losses based on the likelihood of loss and measurability, see Table 1.

Table 1: Accounting for Contingent Losses

[138]If the Judgment Fund will pay the claim, the entity still recognizes the liability and cost at this time. Once the claim is settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for payment, the entity reduces the liability by recognizing an (imputed) financing source. Note that for Judgment Fund payments made under the Contract Disputes Act and the Notification and Federal Employee Antidiscrimination and Retaliation Act, the entity establishes a payable to reimburse the Judgment Fund.

Likelihood of future outflow or other sacrifice of resources	Loss amount can be reasonably measured	Loss range can be reasonably measured	Loss amount or range cannot be reasonably measured
Probable: Future confirming event(s) are likely to occur.[139]	Accrue the liability. Report on Balance Sheet and Statement of Net Cost.	Accrue liability of best estimate or minimum amount in loss range if there is no best estimate, and disclose nature of contingency and range of estimated liability.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Reasonably possible: Possibility of future confirming event(s) occurring is more than remote and less than likely.	Disclose nature of contingency and estimated amount.	Disclose nature of contingency and estimated loss range.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Remote: Possibility of future event(s) occurring is slight.	No action is required.	No action is required.	No action is required.

Management decides what to report. The auditor evaluates whether management's reporting is in accordance with U.S. GAAP.

In addition, if the Judgment Fund might be involved in the payment of the possible loss, the federal entity involved in the litigation should discuss the Judgment Fund's role in a note to the financial statements.

.97 Although management often relies on advice of legal counsel about the (a) likelihood of an unfavorable outcome and (b) estimates of the amount or range of potential loss for litigation, claims, and assessments, management is ultimately responsible for determining whether these contingencies are probable, reasonably possible, or remote. Management does this to decide whether they should be recognized as liabilities and/or disclosed in the notes to the financial statements. Thus, OMB's audit guidance requires CFO Act entity management to prepare a schedule summarizing legal contingencies, including whether they are probable, reasonably possible, or remote, and whether (and in what amounts) they have been accrued or disclosed in the financial statements. An example management summary schedule is provided at FAM 1002 D.

Audit Procedures

.98 The auditor should design procedures to test the entity's accounting for and disclosure of litigation, claims, and assessments. AU-C 501 provides guidance on the procedures to identify litigation, claims, and assessments involving the

[139]See SFFAS 12 for amendment to "probable" definition under SFFAS 5.

entity that may give rise to a risk of material misstatement (AU-C 501.16). AU-C audit requirements are included in sections of FAM 1002 A, FAM 1002 B, and FAM 1002 C. OMB audit guidance also contains procedures for inquiries of legal counsel. (See FAM 1002 A for example audit procedures.)

.99 For actual or potential litigation, claims, and assessments identified based on the required audit procedures, the auditor should obtain audit evidence relevant to the following factors (AU-C 501.17):

pppp. The period in which the underlying causes for legal action occurred.

qqqq. The likelihood of an unfavorable outcome (probable, reasonably possible, or remote).

rrrr. The amount or range of potential loss, if estimable.

.100 The auditor should make inquiries of management, which may include a discussion about the events or conditions in accounting for reporting litigation, claims, and assessments (AU-C 501.16b). The auditor should perform audit procedures to corroborate the information management provides, including seeking direct communication with the entity's internal and external legal counsel through a letter of inquiry prepared by management and sent by the auditor requesting that the entity's internal and external legal counsel communicate directly with the auditor (AU-C 501.18, 19). The auditor should document the basis for any determination not to seek direct communication with the entity's legal counsel (AU-C 501.20).

.101 A letter from legal counsel to the auditor, in response to a legal letter request prepared by management and sent by the auditor to legal counsel, is the auditor's primary means of corroborating the information furnished by management concerning the accuracy and completeness of litigation, claims, and assessments. The auditor should request management to authorize the entity's legal counsel to discuss applicable matters with the auditor (AU-C 501.21).The auditor should ask management to have the legal letter request include either (1) a list of pending or threatened litigation, claims, and assessments or (2) a request by management that legal counsel prepare the list (AU-C 501.22.b). With respect to a list prepared by management (or by the legal counsel at management's request), an identification of the omission of any pending or threatened litigation, claims, and assessments or a statement that the list of such matters is complete should be included (AU-C 501.22diii). The auditor should also ask management to have the legal letter request include a list of unasserted claims and assessments that the counsel determined probable of assertion and that if asserted would have at least a reasonable possibility of an unfavorable outcome, to which legal counsel has devoted substantive attention on the entity's behalf in the form of legal consultation or representation (or a statement that management is not aware of any matters meeting the criteria) (AU-C 501.22.c). The auditor should obtain assurance from management, ordinarily in writing, that it has disclosed all unasserted claims when it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.

Legal counsel then would supplement management's information about those unasserted claims and assessments, including an explanation of any matters where their views differ from those

expressed by management in the legal letter request. In the federal government, where the general counsel may be part of management, the general counsel may instead provide the list of unasserted claims or assessments meeting the above criteria.

The auditor should ask management to have the legal letter request include a request for legal counsel to state that counsel will advise management about unasserted claims and assessments that management should evaluate for disclosure. See the example request at FAM 1002 B and example response at FAM 1002 C.

The auditor should ask management to include a request that the legal counsel specifically identify the nature of, and reasons for, any limitation on the response (AU-C 501.22h).

.102 The auditor should also perform procedures to learn about certain legal claims against the government involving interaction between the government and its environment. This could include events where federal operations caused (1) hazardous waste for cleanup, (2) accidental damage to nonfederal property, or (3) other damage to federal property. In these cases, no monetary damages are being sought, but rather plaintiffs generally seek that the government either take or cease particular actions, which if the claims are successful, could cost the government significant amounts of money to comply. An example is a claim that was brought against the Department of Energy over its classification of certain radioactive waste for disposal. Because the classification affected how the waste could be disposed of and thus the cost of disposal, a successful claim could have resulted in a material increase in the agency's environmental liabilities. Auditors should make inquiries of management and legal counsel to determine whether the entity has such cases that could create a loss contingency, and whether the entity considered those cases in determining the amount of liability to be disclosed per FAM 1002.05 through 1002.06. If such cases exist, the auditor should apply the procedures in FAM 1002.08 through 1002.11 to these cases as well.

When the auditor is aware that an entity has changed legal counsel or that the legal counsel previously engaged by the entity has resigned, the auditor should consider making inquiries of management or others about the reasons such legal counsel is no longer associated with the entity (AU-C 501.23).

Timing of Legal Letter Request and Responses

.103 The auditor generally should perform procedures for inquiries of legal counsel concerning litigation, claims, and assessments on a timely basis to prioritize resolving potential problem areas and to complete other procedures. To meet deadlines, the auditor, entity management, and legal counsel generally should coordinate the timing of legal letter requests, responses (including interim responses), and related management schedules. The auditor and entity management should determine the due dates for responses from component units for the entity's financial statements as well as for the U.S. government's consolidated financial statements. In setting the due dates, the auditor and entity

management generally should consult with Department of Justice's (Justice) legal counsel.

.104 In addition, for audits of group financial statements, the group auditor and component auditor generally should coordinate the timing of legal letter requests, responses, and management schedules and determine the due dates for the component financial statements as well as the group financial statements. The group auditor generally should receive copies of the component letters from the component auditors by the due dates.

.105 The legal counsel's response should include matters that existed at the date of the financial statements being reported on and during the period from the date of the financial statements to the date the information is furnished (AU-C 501.16b) If the effective date is substantially in advance of the completion of the audit (for example, earlier than 2 weeks before the completion of the audit), the auditor should contact the legal counsel for an updated response. To avoid this situation, the legal letter request should include a request that the legal counsel specify the effective date of the response (AU-C 501.22i) to reasonably approximate the expected date of the auditor's report (AU-C 501.A53).

.106 To assist the auditor in completing the review of legal matters in a timely manner (and to assist management in preparing the financial statements), the auditor may ask management to request that legal counsel submit a preliminary or interim response covering matters that existed at the current date and through a point in time reasonably before the completion of the audit so that a preliminary evaluation of the significance of material legal matters can be made. This is particularly applicable to large federal agencies with numerous and complex cases.[140]

If an interim letter is used, the auditor should ask the entity to request that legal counsel submit a final or updated response covering matters from the interim date through the date of audit completion. The entity should request that the updated response contain only changes or a statement indicating there are no changes from the interim response and any new matters from the interim date through the completion of the audit. The auditor should ask the entity to request that legal counsel specify the effective date of the response (AU-C 501.22i) and submit the final legal representation letter coordinating the date with that of the management representation letter (see FAM 1001).

However, in some cases, the legal representation letters are ready first so entity management may rely on them before signing the management representation letters. In these cases, the auditor should make oral inquiries of legal counsel and document whether material changes had occurred from the date of the legal representation letter to the date of audit completion. The auditor should plan to receive letters to meet the reporting deadline in accordance with OMB Circular

[140]For example, for fiscal year 2016, OMB reporting guidance stated that agencies should submit interim legal representation letters to the Department of Justice, the Department of the Treasury's Bureau of the Fiscal Service, and GAO no later than August 26, 2016. This would allow review of cases before external issuance. Final legal representation letters were due no later than November 16, 2016.

No. A-136, *Financial Reporting Requirements*. See FAM 1002 B for an example legal letter request that includes requests for interim and updated responses from legal counsel.

Determining a Materiality Level

.107 The auditor and the entity may agree to limit the legal inquiry to matters that are considered individually or collectively material to the financial statements, provided that the entity and the auditor have agreed on the materiality level. The auditor should ask the entity to indicate the materiality level, if used, in the legal letter request, and the entity should ask the counsel to include the materiality in the response.

.108 In determining a materiality level for the legal letter, the auditor and the entity should set the level sufficiently low so that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with

ssss. other cases not included in the letter,

tttt. all other types of contingencies,

uuuu. all other items that would not be adjusted because they are judged immaterial (unadjusted misstatements),

vvvv. all other amounts in the financial statements that would not be tested directly because they were judged to be immaterial, and

wwww. all other items resolved on the basis of materiality considerations.

.109 In aggregating cases, the auditor and the entity may use two levels of aggregation. First, similar cases are aggregated (such as employment discrimination cases, harbor maintenance fee cases, spent nuclear fuel cases, or military promotion board challenges), treated as a group and the auditor should compare the total with the individual materiality level. The aggregation generally includes a list of the individual cases and a discussion of the information on the aggregated cases included in the legal letter (see FAM 1002 B and FAM 1002 C).

Second, cases not included in the legal letter individually or as part of a group of similar cases are aggregated. The auditor may use a higher materiality level for such an aggregation. However, the auditor may set this higher materiality level sufficiently low so that the cases not included in the legal letter would not be material to the financial statements taken as a whole when aggregated with the other items listed in the previous paragraph.

.110 Where the entity engages more than one legal counsel, the entity and the auditor should determine whether matters considered not material individually would exceed the materiality limit when aggregated. In addition, when separate legal representation letters are requested on individual components (such as bureaus or offices) of a consolidated entity because of individual component audits, the auditor may determine materiality levels for each component.

Legal Counsels from Whom Information Should Be Requested

.111 Most federal entities have a general counsel who has primary responsibility for and knowledge about the entity's litigation, claims, and assessments. The auditor should ask the management and/or the general counsel whether the entity used external legal counsel whose engagement may be limited to particular matters (e.g., specific litigation). The auditor should seek direct communication with the entity's external legal counsel. The auditor should do so through a letter of inquiry prepared by management and sent by the auditor requesting that the entity's external legal counsel communicate directly with the auditor (AU-C 501.18).

.112 In the federal government, the main legal counsel outside of the entity is Justice.[141] The entity's management, its legal counsel, or the auditor may consult with Justice as well as other external legal counsels to verify completeness and accuracy of the presentation of matters related to litigation, claims, and assessments. Such consultation may include requesting a list of pending litigation, claims, and assessments from Justice or other external legal counsel or discussion of specific cases.

.113 The auditor should ask the entity to request that legal counsel cover all litigation, claims, and assessments pertaining to the federal reporting entity, including matters handled by Justice and other external legal counsel on behalf of the entity. If the general counsel has overall responsibility for handling and evaluating litigation, claims, and assessments, the auditor should seek direct communication with the entity's general counsel through a letter of inquiry similar to the letter referred to in FAM 1002.21 (AU-C 501.19). However, evidential matter obtained from the general counsel is not a substitute for information that external legal counsel refuses to furnish to the auditor.

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

Evaluation of Responses

.115 Written responses from legal counsel will vary considerably in scope of information provided and opinions expressed. In preparing the responses, the legal counsel uses the guidance contained in the American Bar Association's (ABA) *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (ABA Policy Statement) (included in its entirety in AU-C 501 Exhibit A).

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

.116 The auditor should ask the entity to request that its legal counsel include all entity components included in the financial statements being audited. Additionally, legal counsel generally should indicate the disposition of cases included in the prior year's letter that are no longer contingencies.

.117 The auditor should evaluate each response in terms of sufficiency as evidence and consider (a) the possible limitations on the scope of legal counsel's responses and (b) the lack of sufficient opinion on the resolution of a case. AU-C 501.A65 provides guidance for evaluating legal counsel responses. The auditor should evaluate any "unable to determine" and vague and unclear responses. The auditor also should evaluate the legal counsel's response in light of any other information that comes to the auditor's attention.

.118 In circumstances in which legal counsel is unable to respond concerning the likelihood of an unfavorable outcome of litigation, claims, and assessments or the amount or range of potential loss due to inherent uncertainties, the auditor generally should conclude that the financial statements are affected by an uncertainty concerning the outcome of a future event, which is not susceptible to reasonable estimation. See FAM 580 for reporting on uncertainties.

Possible Limitations on the Scope of Legal Counsel's Responses

.119 When legal counsel limits the response, the auditor should determine whether the limitation affects the auditor's report. Legal counsel may appropriately limit their response to certain matters. For example, legal counsel may limit responses to matters that (a) legal counsel has given substantive attention to in the form of legal consultation or representation and (b) counsel determined are individually or collectively material to the financial statements, provided the entity and the auditor have reached an understanding on materiality levels. These limitations are acceptable and do not limit the audit scope.

.120 The following are examples of limitations of legal counsel responses that the auditor should not accept and that would ordinarily result in a scope limitation:

xxxx. Legal counsel refuses to furnish the requested information. When legal counsel refuses to respond appropriately to the letter of inquiry and the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures, or management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, the auditor should modify the opinion in the auditor's report, in accordance with AU-C 705 (AU-C 501.24 a-b).

yyyy. Legal counsel excludes matters requested. The legal counsel's responses may not address all information requested. The auditor should compare legal counsel's response with the legal letter request and determine whether legal counsel addressed all the information requested. If legal counsel has excluded any of the requested matters, the auditor should obtain responses for those matters from legal counsel. If the auditor is unable to obtain all the information needed, the auditor should evaluate this as a scope limitation that could be sufficient to preclude an unmodified opinion.

zzzz. Legal counsel indicates that certain information is being withheld due to attorney-client privilege. Under the ABA Model Rules of Professional Conduct, legal counsel is required to preserve the confidences of the client.

Legal counsel may disclose confidences to the auditor only with the consent of the client. If the legal letter request is prepared in accordance with AU-C 501, the auditor should expect that legal counsel would be responsive; otherwise the scope of the audit would be restricted. On the other hand, explanatory language in the legal letter request or in legal counsel's response emphasizing that management or legal counsel does not intend to waive attorney-client privilege or attorney work-product privilege does not result in a scope limitation.

.121 Evaluation of the Outcome of Litigation, Claims, or Assessment. The ABA Policy Statement provides that the legal counsel may, in appropriate circumstances, communicate to the auditor counsel's view that an unfavorable outcome is "probable" or "remote." However, the legal counsel is not required to use those terms in communicating the evaluation to the auditor. Below are examples of some responses the auditor may receive that are either unclear or provide sufficient clarity using other general terms AU-C 501.A65.

aaaaa. **Unclear responses.** The following are examples under AU-C 501.A65 of evaluations that are unclear about the likelihood of an unfavorable outcome.

- "The action involves unique characteristics wherein authoritative legal precedents do not seem to exist. We believe that the plaintiff will have serious problems establishing the entity's liability under the act; nevertheless, if the plaintiff is successful, the award may be substantial."
- "It is our opinion that the entity will be able to assert meritorious defenses to this action." (The term meritorious defenses indicates that the court will not summarily dismiss the entity's defenses; it does not indicate legal counsel's opinion that the entity will prevail.)
- "We believe that the action can be settled for less than the damages claimed."
- "We are unable to express an opinion as to the merits of the litigation at this time. The entity believes that there is absolutely no merit to the litigation." (If the entity's legal counsel, with the benefit of all relevant information, is unable to conclude that the likelihood of an unfavorable outcome is remote, it is unlikely that management would be able to form a judgment to that effect.)
- "In our opinion, the entity has a substantial chance of prevailing in this action." (A "substantial chance," a "reasonable opportunity," and similar terms indicate more uncertainty than an opinion that the entity will prevail.)

bbbbb. **Responses with general terms.** Legal counsel sometimes uses general terms to indicate its evaluation of the outcome of a case. The following are examples under AU-C 501.A65 of evaluations that provide sufficient clarity that the likelihood of an unfavorable outcome is remote, even though they do not use that term.

- "We are of the opinion that this action will not result in any liability to the entity."
- "It is our opinion that the possible liability to the entity in this proceeding is nominal in amount."
- "We believe that the entity will be able to defend this action successfully."
- "We believe that the plaintiff's case against the entity is without merit."
- "Based on the facts known to us, after a full investigation, it is our opinion that no liability will be established against the entity in these suits."

.122 To avoid unclear and incomplete responses, the auditor generally should ask management to request that legal counsel use Justice's standard forms to describe legal contingencies (see FAM 1002 C-4 through C-6 for examples of these forms). When legal counsel does not indicate whether the unfavorable outcome is probable or remote, management and the auditor should conclude that the outcome is reasonably possible, and management should determine the disclosure. Management, with legal counsel's advice, determines whether cases are probable, reasonably possible, or remote, to decide whether to recognize them as liabilities and/or disclose them in the notes to the financial statements.

.123 If the auditor is not certain about legal counsel's evaluation, the auditor should discuss the matters with legal counsel and entity management (and document the oral discussion), and/or obtain written clarification in a follow-up letter. Sometimes legal counsel may give a clearer indication of likelihood orally. If legal counsel is unable to give a clear evaluation of the likelihood of an unfavorable outcome, management should disclose the uncertainty and the auditor should evaluate the uncertainty's effect on the audit report.

Example Legal Letter Request

.124 The legal letter request, which the auditor may assist management to draft, should be on the audited entity's letterhead, signed by the CFO, or equivalent. The request letter should be sent by the auditor, and ask that the reply be sent directly to the auditor with a copy to management by specified due dates (AU-C 501.18). FAM 1002 B provides an example legal letter request that includes requests for interim and updated responses from legal counsel and matters that should be covered in the letter.

Example Legal Counsel's Responses and Management's Schedule

.125 The legal counsel's response on legal counsel letterhead is sent to the auditor with a copy to management by the agreed-upon due dates. The legal counsel may indicate that the response is provided for the auditor's use in connection with the audit.

.126 FAM 1002 C shows an example of a legal counsel response, including the legal representation letter that should include Justice's legal contingency standard forms for each case or group of cases. Forms can be obtained on Justice's website at http://www.justice.gov/civil/common/Legalrepletters_nonDOJ.html, and auditors should verify that current forms were used.

.127 FAM 1002 D shows an example of a management schedule documenting how the information contained in the legal counsel's response was used in preparing the financial statements. Management should include each case discussed in the legal letter and indicate (1) the amount accrued for probable cases and (2) note disclosure for reasonably possible cases, probable cases where the amount cannot be estimated, and probable cases where a range of amounts above the accrued amount is estimated.

Practice Aids

.128 Practice aids are provided at

FAM 1002 A – Example Audit Procedures for Inquiries of Legal Counsel;
FAM 1002 B – Example Legal Letter Request;
FAM 1002 C – Example Legal Representation Letter, and
FAM 1002 D – Example Management Summary Schedule.

1002 A – Example Audit Procedures for Inquiries of Legal Counsel

Entity _____

Period of financial statements _____

Job code _____

Example audit procedures	Done by/date	Doc. ref.
I. Testing procedures		
1) Ask management about the entity's policies and procedures for identifying, evaluating, and accounting for litigation, claims, and assessments.		
2) Obtain from management (or the entity's legal counsel) a description and evaluation of litigation, claims, and assessments existing at the date of the financial statements being reported on and during the period from the date of the financial statements through the date of management's response (see timing of the audit at FAM 1002.13 to 1002.16)(AU-C 501.16b).		
3) To determine whether an external legal counsel is performing services for the entity, inquire of management whether external legal counsel has been used by the entity and the matters handled (AU-C 501.16c). Ask management for a list of pending litigation, claims, and assessments from the Department of Justice and from other external legal counsel, if any. Review related correspondence, legal expense accounts, and invoices (AU-C 501.16d).		
4) Ask whether there have been changes in the status of the general counsel or external legal counsel, such as any resignations or intentions to resign (AU-C 501.16c). If so, determine if there are matters that may affect the financial statements. For example, in appropriate circumstances, a legal counsel may be permitted by rules of professional conduct to resign the representation if the legal counsel's advice concerning disclosures is disregarded by the entity.		
5) To identify litigation, claims, and assessments, the auditor should review minutes of meetings of those charged with governance. The auditor may also review significant contracts, loan agreements, and leases that may give rise to a risk of material misstatement (AU-C 501.16c).		

Example audit procedures	Done by/date	Doc. ref.
6) If information comes to the auditor's attention that may indicate a potential contingency with respect to litigation, claims, or assessments that may require adjustment to or disclosure in the financial statements, discuss with the entity its possible need to consult its legal counsel. Depending on the severity of the matter, refusal by the entity to consult its legal counsel in those circumstances may result in a modification of the opinion in the auditor's report (AU-C 501.24B). Determine the effect of such a limitation on the auditor's report.		
7) Request that entity management prepare a legal letter request to be sent by the auditor to the general counsel asking that the counsel communicate directly with the auditor (AU-C 501.18). (Obtain a copy of the legal letter request.) Determine whether there is a need to request legal letters from any external legal counsel (AU-C 501.16c). The legal letter should cover litigation, claims, and assessments pertaining to the reporting entity, including matters handled by Justice or other external legal counsel (AU-C 501.16c). (See FAM 1002 B for an example legal letter request.) Coordinate with management and legal counsel to determine • the timing of legal letter requests and responses and related management's summary/schedules of information contained in legal responses and • a materiality level to be included in the legal representation letter. (FAM 1002.17 through .20)		
8) Read the legal letter responses and management's schedules to identify litigation, claims, and assessments.		
9) Compare the description and evaluation of the current year's legal letter responses to the prior year's audit documentation. If this comparison indicates that certain legal matters in the prior year are no longer included, discuss these matters with management or legal counsel to obtain an understanding of the reasons for the changes.		
10) Determine whether the information in the legal representation letter is consistent with management's schedule summarizing the information in the letter and related supporting documentation.		
11) Document and discuss with the legal counsel if the information obtained is not complete, clear, or consistent.		

Example audit procedures	Done by/date	Doc. ref.
12) Evaluate the legal counsel's responses and determine the effects of the responses on liabilities and related note disclosures in the financial statements and on the auditor's report.		
13) If a response date is substantially in advance of the audit report date, for example, earlier than 2 weeks before the date of auditor's report, obtain a written or oral update response. (The longer the period between the legal letter and the audit report date, the more important a written update becomes.)		
II. Reporting procedures 14) Obtain a representation from management in the management representation letter (see FAM 550 and 1001) that the entity has disclosed all unasserted claims that its legal counsel has advised are probable of assertion and that if asserted would have at least a reasonable possibility of an unfavorable outcome and must be disclosed. 15) Discuss the description and evaluation of litigation, claims, and assessments obtained with management to determine if, subsequent to the date of the legal counsel's response, there have been any changes in status of the matters, changes in management's evaluation of the outcome, or additional matters to be evaluated.		
16) If there are significant changes in the status of the matters or new matters, obtain a written confirmation or updated response from the legal counsel.		
17) Have management include in the management representation letter representations related to contingencies and determine if they are appropriately accrued and disclosed as required by SFFAS 5, as amended. If management has not consulted its legal counsel, obtain a written representation from management that the legal counsel has not been consulted. This representation may be incorporated in the management representation letter (see FAM 550 and 1001).		
18) Read the entity's financial statements and notes and a) evaluate the adequacy of financial statement disclosure for contingencies with respect to litigation, claims, and assessments;		

Example audit procedures	Done by/date	Doc. ref.
b) determine if the financial statement disclosures for contingencies with respect to litigation, claims, and assessments are prepared in accordance with OMB guidance; and		
c) for federal entities involved in litigation for which the Judgment Fund is a likely source of judgment or settlement, determine if a note to the financial statements discusses the Judgment Fund's role in the payment of a possible loss, as required by FASAB Interpretation No. 2, Accounting for Treasury Judgment Fund Transactions.		
19) Document conclusions reached concerning the accounting for and disclosure of litigation, claims, and assessments; determine if adjustments are necessary and whether modification of the auditor's report is necessary (see FAM 580).		

1002 B – Example Legal Letter Request

[Audited Entity Letterhead]

[Date]
[General Counsel]
[Agency or Firm Name]
[City]

Subject: **[Auditor's]** Audits of 20XX and 20XX Financial Statements

Pursuant to **[cite applicable legal authority to conduct the audit, such as 31 U.S.C. 3521]**, [auditor's name] is auditing the financial statements of **[Entity]** as of and for the years ended September 30, 20XX, and 20XX. In performing financial statement audits of government entities, auditors comply with *Government Auditing Standards*, issued by the Comptroller General of the United States. *Government Auditing Standards* incorporates the Statements on Auditing Standards promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA).

Consistent with AU-C 501, *Audit Evidence – Specific Considerations for Selected Items*, of the AICPA's *Codification of Statements on Auditing Standards*, **[auditor]** has inquired about litigation, claims, and assessments to obtain evidence of the financial accounting and reporting of such matters in the financial statements. The purpose of this letter is to request your assistance in responding to that inquiry and to provide our consent to furnish our auditor with the information requested herein. The American Bar Association's *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975) provides guidance for a lawyer's response to an auditor's request.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, and Interpretation No. 2 of SFFAS 4 and 5, **[Entity]** may need to report certain information in its financial statements and notes concerning contingencies for litigation, claims, and assessments. We request that you provide **[auditor]** (with a copy to me) information on matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of **[Entity]** in the form of legal consultation or representation.

Please furnish an interim response to our auditors by **[due date]**, including matters that existed as of **[date appropriate for the audit]**. Our auditors would appreciate receiving your updated final response by **[due date]** that includes matters that existed at **[date of financial statements]** and during the period from that date through the effective date of your response, which should be no earlier than **[effective date]**. The final response should separately identify any new matters or significant changes from the interim response, or include a statement that there are no new matters or significant changes, and should specify the effective date of the response. **(Note: The auditor and the entity should determine whether to request an interim legal response based on the circumstances of the audit. Refer to FAM 1002.16)**

Please include any cases[142] with respect to which you have been engaged and to which you have devoted substantive attention on behalf of **[Entity]** in the form of legal consultation or representation, including those cases for which you believe the Judgment Fund or other external financing source will pay any potential loss. Under U.S. generally accepted accounting principles, these amounts will be included as liabilities or disclosure items in **[Entity]**'s financial statements. Please aggregate cases similar in nature where appropriate. Please list the matters in order of the amount of potential loss, starting with the largest.

Pending or Threatened Litigation, Claims, and Assessments (Excluding Unasserted Claims)

We have determined that any matters for which (1) the amount of potential loss exceeds **[$XX]**, individually or in the aggregate for similar cases, or (2) the amount of potential loss exceeds **[$XXX]** in the aggregate for cases not listed individually or as part of similar cases could be material to the financial statements. We request that you provide to **[auditor]** the information described below about pending or threatened litigation, claims, and assessments where the amount of potential loss exceeds these amounts:

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

Additionally, please provide a statement that the list of such matters is complete.

We also request that you identify litigation reported in your prior-year legal representation letter as pending or threatened that is no longer pending or threatened and a short description of the disposition.

Unasserted Claims and Assessments [Considered by management to be probable of assertion and that if asserted would have at least a reasonable possibility of an unfavorable outcome]

(Note: <u>If legal counsel is a part of management use this paragraph to request a list of unasserted claims instead of the next paragraph.)</u> For all unasserted claims and assessments that you consider to be probable of assertion and that if asserted would have at least a reasonable possibility (more than remote) of an unfavorable outcome for which (1) the amount of potential loss exceeds **[$XX]**, individually or in the aggregate for similar cases, or

[142]This includes any cases that do not seek monetary damage awards, but would require the government to use financial resources to implement remedies or actions sought by litigation or unasserted claims (for example, to increase the scope of, or change to a more costly methodology of, environmental restoration and cleanup).

(2) the amount of the potential loss exceeds **[$XXX]** in the aggregate for cases not listed individually or as part of similar cases, please provide the following information:

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

Also, please include a statement that the list of such matters is complete.

(Note: If legal counsel is not part of management, such as an external legal counsel, use this paragraph instead of the previous paragraph and attach management's listing of unasserted claims.) We have provided an attachment to this request that lists the unasserted claims and assessments involving matters to which you have devoted substantive attention that we consider to be probable of assertion and that if asserted would have at least a reasonable possibility (more than remote) of an unfavorable outcome for which (1) the amount of potential loss exceeds **[$XX]**, individually or in the aggregate for similar cases, or (2) the amount of potential loss exceeds **[$XXX]** in the aggregate for cases not listed individually or as part of similar cases. Please provide to **[auditor]** information or explanations, if any, that you consider necessary to supplement the attached information, including an explanation for any matters for which your views differ from those stated in the attachment. Please provide the following information for any additional matters that you believe meet these criteria or include a statement that the list of such matters provided by management is complete:

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

We understand that whenever, in the course of performing legal services for us with respect to matters recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will so advise us and will consult with us concerning the question of such disclosure and the applicable requirements of SFFAS 5, as amended. Please specifically confirm to **[auditor]** that our understanding is correct.

We request that you describe the cases using the following Department of Justice forms: (1) Pending or Threatened Litigation, (2) Unasserted Claims and Assessments, and (3) Claims Reported in Prior Year That Are No Longer Pending. The current forms and instructions are available at http://www.justice.gov/civil/common/Legalrepletters_nonDOJ.html.

With respect to those matters that you have been engaged and to which you have devoted substantive attention on behalf of the **[entity]** in the form of legal consultation or representation, please separately identify any pending or threatened litigation and unasserted claims, along with the name of the other governmental entity(s) that you believe to be defendants and responsible for any potential liability.

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

Please address your reply to [Insert name, Director, GAO, or commensurate inspector general official], and contact [him/her] at [phone number], when your reply is available for pick up and send a copy of your reply to me. Do not hesitate to contact me or [auditor] if you have any questions about this request.

1002 C – Example Legal Representation Letter

[General Counsel Letterhead]

[Date]
[Auditor]
[Title]
[Agency or Firm Name]
[City]

Subject: Legal Response in Connection with the 20XX and 20XX Financial Statement Audits of **[Entity]**

Dear **[Auditor]**:

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

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

Subject to the foregoing and to the last paragraph of this letter, I advise you that since [insert date of beginning of period under audit] neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to or represented **[Entity]** in connection with (1) loss contingencies **[over the amount of (state materiality level agreed to with auditor and stated in request letter, for example, $1 million)]**, or (2) loss contingencies that are less than or equal to **[for example, $1 million]** but in the aggregate exceed **[for example, $5 million]** coming within the scope of clause (a) of paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

[Describe litigation, claims, and assessments that fit the foregoing criteria as follows. General Counsel should use current Department of Justice forms to describe the cases (one for pending or threatened litigation, another for unasserted claims and assessments); see the Department of Justice website at http://www.justice.gov/civil/common/Legalrepletters_nonDOJ.html.[143]]

Pending or Threatened Litigation, Claims, and Assessments

(Excluding unasserted claims and assessments, which are discussed below.)

1. Nature of the matter (include a description of the case or cases and amount claimed, if specified).
2. Progress of the case to date.
3. Current or intended response.

[143] It is expected that cases or matters will be aggregated where appropriate.

4. Evaluation of the likelihood of an unfavorable outcome (categorize likelihood as probable, reasonably possible, or remote).
5. Estimated amount or range of potential loss, if determinable, for losses considered to be probable or reasonably possible.

6. Name of **[Entity]**'s legal counsel handling the case and names of any external legal counsel representing or advising the government in the matter.

[Identify omission of any pending or threatened litigation, claims, and assessments or add a statement that the list of such matters is complete.]

Pending or threatened litigation that was reported in the prior year's legal representation letter, which is no longer pending or threatened, is as follows:

[Identify litigation with a short description of its disposition.]

With respect to matters that have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the American Bar Association's (ABA) *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (December 1975)*, I advise you, subject to the last paragraph of this letter, as follows.

Unasserted Claims and Assessments

(Considered to be probable of assertion and that if asserted would have at least a reasonable possibility of an unfavorable outcome.)

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

* * * * *

The information set forth herein is as of the date of this letter **OR** [**as of [insert date], the effective date on which we commenced our internal review procedures for purposes of preparing this response]**, except as otherwise noted. **[If an interim response, add "Upon receipt of a request to update the response, I will provide an updated response, which is due on [date],"] [If a final response: I disclaim any undertaking to advise you of changes that after the date of this letter, may be brought to my attention or the attention of lawyers over whom I exercise general legal supervision.]**

(The following language is generally consistent with AU-C 501 Exhibit A.)

This response is limited by, and in accordance with, the ABA *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975). Without limiting the generality of the foregoing, the limitations set forth in such statement on the scope and use of this response (paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any "loss contingencies" is qualified in its entirety by paragraph 5 of the statement and the accompanying commentary (which is an integral part of the statement).

Consistent with the last sentence of paragraph 6 of the ABA *Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975), this will confirm as correct **[Entity]**'s understanding that whenever, in the course of performing legal services for

[Entity] with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, I have formed a professional conclusion that **[Entity]** must disclose or consider disclosure concerning such possible claim or assessment. I, as a matter of professional responsibility to **[Entity]**, will so advise **[Entity]** and will consult with **[Entity]** concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, and Interpretation No. 2 of SFFAS 4 and 5.

[Describe any other or additional limitation as indicated by paragraph 4 of the statement.]

Sincerely yours,

_____

[Name of General Counsel]
[Title]

cc: Chief Financial Officer

Attachments (DOJ forms or other case information)

1002 D – Example Management Summary Schedule

The auditor should verify that management prepares this schedule (or equivalent), summarizing the information contained in the legal letters. In particular, the auditor should determine that management has concluded on the likelihood of loss for each case to determine whether an amount should be recorded in the financial statements and/or if note disclosure is necessary for the financial statements to conform to U.S. GAAP, or both. Although most information comes directly from the legal letter, the auditor should determine that management has accurately added the information in the last two columns to indicate the disposition of each case in the financial statements.

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

Guidance for Preparation:

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

Column Explanation

(1) **Reference key:** Page number of legal representation letter obtained from General Counsel discussing the case, or other reference information.

(2) **Amount claimed:** Amount claimed in the litigation, claim, or assessment (if specified).

(3) **Name of case or related cases:** Where appropriate, name of case or aggregated cases that meet materiality threshold.

(4) **Likelihood of loss:** Indicate management's evaluation of the likelihood of loss on individual or aggregated cases.

Options: **P:** probable (loss likely to occur).

R/P: reasonably possible (the chance of loss is less than probable, but more than remote).

R: remote (the chance of loss is slight).

(5) Amount or range of potential loss:

Options: **5a:** Probable (P) – Provide single estimate or lower end of range, if known. Enter "U" if unknown. (Also provide column totals.)

5b: Reasonably possible (R/P) – Provide single estimate or lower end of range, if provided. Enter "U" if unknown. Also, provide column totals.

5c: If amounts in P or R/P are ranges, provide upper end of range; otherwise, enter "n/a."

(6) **Disposition in financial statements – amount recorded:** If applicable, provide corresponding dollar amount recorded as a liability in the financial statements. (Also provide column totals.)

(7) **Disposition in financial statements – note disclosure:** If applicable, indicate by note reference number where case information is separately disclosed or included in amounts disclosed in notes to the financial statements. (Also provide column totals.)

1003 – Financial Statement Audit Completion Checklist

Entity: _____

Job Code: _____

Principal Report: _____

Other Reports (including management reports and testimonies): _____

_____

Instructions

This checklist is intended to help financial statement auditors determine whether they have complied with GAGAS, clarified AICPA audit standards (AU-Cs) and the FAM. The auditor-in-charge (AIC), audit senior, or audit manager should prepare this checklist before the audit completion date and sign in section VII. The assistant director and first partner (audit director) should review this checklist before the audit completion date and also sign in section VII. For GAO audits, the chief accountant or second partner should review the checklist and sign in section VIII when engagement quality control review (second partner review) is completed before the audit completion date. If the audit is conducted at multiple sites, the site supervisor may complete parts of the checklist for each site (with the AIC, audit senior, or audit manager completing the overall checklist). While parts of the checklist are useful in audit planning, no signatures are required on the checklist in the planning phase.

The checklist is a combination of auditing standard objectives and selected procedures related to the objectives. The checklist does not contain all procedures that should be performed to meet the audit objectives, and the auditor still has the responsibility to ensure that all FAM requirements are met.

The detailed questions in this checklist are to be answered "Yes," "No," or "N/A (not applicable)." For most questions, No answers indicate departures from professional standards or from the FAM. The auditor should explain all No answers in section VI of this checklist and determine the effects and significance of No answers, including any effects on the auditor's report. Auditors should check N/A when an item does not exist or when the item exists but is judged to be immaterial. Because the checklist is designed for a wide range of financial statement audits, there may be many N/A answers. If the reason why a question is not applicable is not obvious, the auditor should document the reason on the checklist or in an attachment. It is not necessary to create additional documentation to support the Yes answers, but a column is provided to insert a reference to related audit documentation ("Ref."). The questions are summarized. For most questions, there is a reference to professional literature that provides more detail.

Section V has questions on GAO's quality control. GAO auditors should complete this section.

References

Clarified AICPA *Professional Standards* (vol. 1, *Auditing*)..... AU-C
GAO/CIGIE *Financial Audit Manual* ..... FAM
Government Auditing Standards (2011 edition) ..... GAGAS

Section I: Planning and Risk Assessment Phase	N/A, Yes, No*	Ref.
1. Has the engagement team documented that it has		
a. established an appropriate understanding with the entity's management and, when appropriate, those charged with governance on the terms of the engagement, including the objectives and scope of the work; management's responsibilities; auditors' responsibilities; and the expected form and content of reports on the financial statements, internal control, and compliance and		
b. issued an engagement letter, contract, or other written communication to describe the terms of the engagement and obtained agreement from management that it acknowledges and understands its responsibility? (FAM 215 and GAGAS (2011) 4.03)		
2. If, prior to completing the engagement, the terms of the audit engagement are changed, does the engagement letter or other suitable form of written agreement contain the new terms of the engagement? (AU-C 210.16)		
3. Was an entrance conference held and documented?		
4. Does the audit documentation contain an understanding of the entity, its operations, and its internal controls sufficient for assessing risk and planning the audit? (FAM 290 and 390)		
5. Does the audit documentation contain an adequate audit strategy and audit plan? (FAM 290)		
6. Did the engagement team adequately plan the audit, including the following steps: (FAM 290)		
a. Perform preliminary analytical procedures? (FAM 225)		
b. Determine materiality? (FAM 230)		
c. Identify the methodology used to assess related information system (IS) controls and document the basis for believing that the methodology used is appropriate? (GAO auditors should use the *Federal Information System Controls Audit Manual (*FISCAM).) (FAM 240)		

Section I: Planning and Risk Assessment Phase	N/A, Yes, No*	Ref.
d. Identify significant provisions of applicable laws and regulations? (FAM 245)		
e. Determine the approach for identifying and testing significant provisions for contracts and grant agreements. (FAM 245)		
f. Identify relevant budget restrictions? (FAM 250)		
g. Design the audit to achieve an acceptable level of audit assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error? (GAO uses 95 percent.) (FAM 260)		
h. Brainstorm among the engagement team members, including the first/engagement partner, about how and where the entity's financial statements (at the financial statement and assertion levels) might be susceptible to material misstatement due to fraud or error, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated? (FAM 260)		
i. Assess fraud risks, including any related to revenue recognition and to management override of controls, and exercise professional skepticism throughout the audit? (FAM 260 and FAM 290)		
j. Assess inherent risk and evaluate overall effectiveness of the design and implementation of the control environment, entity risk assessment, information and communication, and monitoring, to assess the risk of material misstatement, including whether an effective control environment precludes the effectiveness of specific control activities? (FAM 260)		
k. Consider the likelihood of effective IS controls? (FAM 270)		
l. Consider operations controls to test? (FAM 275)		
m. Plan other procedures (e.g., representation letters, related-party transactions, etc.)? (FAM 280)		
n. Consider the appropriateness of performing interim testing? (FAM 295 D)		
o. Determine locations to be visited? (FAM 285)		

Section I: Planning and Risk Assessment Phase	N/A, Yes, No*	Ref.
p. Determine staffing and review requirements? (FAM 290)		
q. Determine whether the engagement team can comply with relevant ethical requirements, including independence requirements? (FAM 215)		
r. Determine audit timing, including milestones? (FAM 290)		
s. Determine extent of assistance from entity personnel? (FAM 290)		
7. Does the audit strategy consider findings and recommendations from previous audits that could affect the current audit objectives? (GAGAS (2011) 4.05)		
8. Did the engagement team identify compliance controls over significant provisions of applicable laws, regulations, contracts, and grant agreements? (FAM 245, 310, and 330)		
9. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, did the engagement team plan to use the work of an auditor's specialist (IS auditors, actuaries, or those who value assets)? (FAM 620) Also, see section III of this checklist.		
10. In addition to the questions above, answer the following regarding whether the auditor achieved the following objectives. AU-C 200.23 states that the auditor should use the objectives stated in individual AU-C sections in planning and performing the audit considering the interrelationships within generally accepted auditing standards (GAAS) to (a) determine whether any audit procedures in addition to those required by individual AU-C sections are necessary in pursuance of the objectives stated in each AU-C section and (b) evaluate whether sufficient appropriate audit evidence has been obtained. Did the auditor achieve the following objectives?		
a. For a new or existing audit client, did the auditor: • establish whether the preconditions for an audit are present and • confirm that a common understanding of the terms of the audit engagement exists between the auditor and management and, when appropriate, those charged with governance? (AU-C 210)		

Section I: Planning and Risk Assessment Phase	N/A, Yes, No*	Ref.
b. Did the auditor identify and assess the risks of material misstatement of the financial statements due to fraud? (AU-C 240.10a)		
c. Did the auditor • communicate clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit and • obtain from those charged with governance information relevant to the audit? (AU-C 260)		
d. Did the auditor identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement? (AU-C 315)		
e. Did the auditor plan the audit so that it will be performed in an effective manner? (AU-C 300)		
f. Did the auditor apply the concept of materiality appropriately in planning and performing the audit? (AU-C 320)		
g. Did the auditor obtain an understanding of the nature and significance of the services provided by the entity's service organization(s) and their effect on the user entity's internal controls relevant to the audit, sufficient to identify and assess the risks of material misstatement? (AU-C 402 and FAM 310)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
1. Did the engagement team prepare the following documentation summarizing considerations in planning and performing the work in the key audit areas and cycles:		
a. Cycle Matrix or an equivalent (or documentation in Line Item Risk Analysis or an equivalent) showing links between accounts, cycles, applications, and line items? (FAM 290)		
b. Line Item Risk Analysis or an equivalent? (FAM 290 and FAM 390)		
c. Cycle Memorandum and/or flowchart or equivalents? (FAM 390)		
d. Specific Control Evaluation or an equivalent? (FAM 390)		
e. Written audit plan and procedures? (FAM 290 and 390)		
2. If conditions changed during the course of the audit, were the audit strategy, audit plans, and procedures modified as appropriate in the circumstances, including evidence of first partner/audit director approval? (FAM 210)		
3. Has the audit director determined that communications have occurred among the engagement team regarding fraud risks and error risks? (FAM 260 and FAM 290)		
4. When the engagement team performed sampling, did it properly determine and document the		
a. method used in relation to test objectives, such as a monetary unit sample or attribute;		
b. sample size and method (i.e., IDEA) of determining the sample size;		
c. tests performed;		
d. results (misstatements and deviations found);		
e. evaluation (including projection to the population);		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
f. conclusions; and		
g. requirements described in section III, item 4, of this checklist—consulting with the auditing specialist? (FAM 490)		
5. Did the engagement team properly perform and document its substantive analytical procedures? (FAM 475.04 and 490)		
6. When the engagement team performed interim testing, did it		
a. test the roll-forward period and		
b. properly document the		
i. basis for using interim testing and the line items/accounts and assertions tested,		
ii. procedures performed, and		
iii. effects of any misstatements found? (FAM 495 C)		
7. Did the engagement team evaluate the reasonableness of significant accounting estimates made by management? (FAM 905)		
8. Did an IS specialist concur with the auditor's identification of IS controls that will be tested (including controls performed at service organizations used by the entity)? (FAM 350)		
9. For any identified budget controls, did the engagement team perform sufficient work to support the conclusions on internal control? (FAM 250, 330 and 460)		
10. For any identified compliance controls, did the engagement team perform sufficient work to support the conclusions on internal control? (FAM 245, 330, and 460)		
Based on the assessed risk of material misstatement, did the engagement team perform adequate substantive audit procedures for line items/accounts for items 11 through 18? (If not a material area, check N/A.)		
11. **Fund Balance with Treasury (FBWT) (FAM 921)**		

Section II: Performing the Engagement	**N/A, Yes, No***	**Ref.**
a. Did the engagement team test the entity's year-end reconciliation of FBWT to the U.S. Treasury accounts?		
b. Did the engagement team determine if the entity		
i. researched and resolved differences before making adjustments;		
ii. recorded any necessary adjustments in the entity's FBWT accounts;		
iii. reported the adjustments to the Department of the Treasury, if applicable;		
iv. timely and properly cleared suspense account balances; and		
v. disclosed in the notes to the financial statements material unreconciled differences and budget clearing account differences at year-end, and material unreconciled differences written off by the entity during the year?		
c. Did the engagement team assess (at absolute value) the materiality of unreconciled differences, including those in budget clearing accounts?		
12. **Receivables** Consider these issues:		
a. Were receivables confirmed and appropriate follow-up steps taken, including second requests and subsequent collections (AU-C 505)?		
b. Are receivables stated at net realizable value after allowance for uncollectible accounts (AU-C 540)?		
13. **Valuation of Investments in Securities and Derivative Instruments (AU-C 501)**		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
A. Investments Accounted for Using the Equity Method of Accounting (AU-C 501) When investments in securities are valued based on an investee's financial results, excluding investments accounted for using the equity method of accounting, did the auditor obtain sufficient appropriate audit evidence in support of the investee's financial results, as follows:		
i. Obtain and read available financial statements of the investee and the accompanying audit report, if any, including determining whether the report of the other auditor is satisfactory for this purpose?		
ii. If the investee's financial statements are not audited, or if the audit report on such financial statements is not satisfactory to the auditor, apply—or request that the investor entity arrange with the investee to have another auditor apply—appropriate auditing procedures to such financial statements, considering the materiality of the investment in relation to the financial statements of the investor entity?		
iii. If the carrying amount of the investment reflects factors that are not recognized in the investee's financial statements or fair values of assets that are materially different from the investee's carrying amounts, obtain sufficient appropriate audit evidence in support of such amounts?		
iv. If the difference between the financial statement period of the entity and the investee has or could have a material effect on the entity's financial statements, determine whether the entity's management has properly considered the lack of comparability and determine the effect, if any, on the auditor's report?		
v. With respect to subsequent events and transactions of the investee occurring after the date of the investee's financial statements but before the date of the auditor's report, did the auditor obtain and read available interim financial statements of the investee and make appropriate inquiries of management of the investor to identify such events and transactions that may be material to the investor's financial statements and that may need to be recognized or disclosed in the investor's financial statements?		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
B. Investments in Derivative Instruments and Securities Measured or Disclosed at Fair Value (AU-C 501) With respect to investments in derivative instruments and securities measured or disclosed at fair value, did the auditor do the following:		
i. Determine whether the applicable financial reporting framework specifies the method to be used to determine the fair value of the entity's derivative instruments and investments in securities?		
ii. Evaluate whether the determination of fair value is consistent with the specified valuation method?		
iii. If estimates of fair value of derivative instruments or securities are obtained from broker-dealers or other third-party sources based on valuation models, develop an understanding of the method that the broker-dealer or other third-party source used in developing the estimate and consider the applicability of section AU-C 500?		
iv. If derivative instruments or securities are valued by the entity using a valuation model, obtain sufficient appropriate audit evidence supporting management's assertions about fair value determined using the model?		
C. Impairment Losses (AU-C 501) Did the auditor		
i. evaluate management's conclusion (including the relevance of the information considered) about the need to recognize an impairment loss for a decline in a security's fair value below its cost or carrying amount and		
ii. obtain sufficient appropriate audit evidence supporting the amount of any impairment adjustment recorded, including evaluating whether the requirements of the applicable financial reporting framework have been complied with?		
D. Unrealized Appreciation or Depreciation (AU-C 501)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
i. Did the auditor obtain sufficient appropriate audit evidence about the amount of unrealized appreciation or depreciation in the fair value of a derivative that is recognized or that is disclosed because of the ineffectiveness of a hedge, including evaluating whether the requirements of the applicable financial reporting framework have been complied with?		
1. **Inventories (AU-C 501)**		
A. Did the auditor consider the effects of SFFAS 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials if applied by the entity? SFFAS 48 is intended to provide an alternative valuation method to adoption of GAAP when historical records and systems do not provide a basis for valuation of opening balances in accordance with SFFAS 3, Accounting for Inventory and Related Property.		
B. Did the auditor obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by 1. attending physical inventory counting, unless impracticable, to a. evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting, b. observe the performance of management's count procedures, c. inspect the inventory, and d. perform test counts? 2. performing audit procedures over the entity's final inventory records to determine whether they actually reflect actual inventory count results?		
C. If physical inventory counting was conducted at a date other than the date of the financial statements, did the auditor, in addition to the procedures required in B. above, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are recorded properly? (AU-C 501.12)		
D. If the auditor was unable to attend physical inventory counting due to unforeseen circumstances, did the auditor make or observe some physical counts on an alternative date and perform audit procedures on intervening transactions? (AU-C 501.13)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
E. If attending physical inventory counting was impracticable, did the auditor perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory? If it was not possible to do so, did the auditor modify the opinion in the auditor's report, in accordance with AU-C 705? (AU-C 501.14)		
F. If inventory under the custody and control of a third party was material to the financial statements, did the auditor obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following: i. Request confirmation from the third party regarding the quantities and condition of inventory held on behalf of the entity? ii. Perform inspection or other audit procedures appropriate in the circumstances? (AU-C 501.15)		
2. **Property, Plant, and Equipment** Consider these issues:		
a. Was a summary schedule prepared (or obtained) to show beginning balances, changes during the period, and ending balances for		
i. property, plant, and equipment and		
ii. accumulated depreciation?		
b. Did the auditor consider the effects of SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment, if applied by the entity? SFFAS 50 provides implementation guidance to allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances for general property, plant, and equipment.		
c. Were significant activity and balances tested, particularly for existence and other significant assertions?		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
d. Were property items capitalized or expensed in accordance with consistent capitalization limits?		
e. Did the engagement team perform tests of completeness, such as testing from disbursements to property records?		
f. Do the tests appear adequate, and were proper conclusions drawn?		
3. **Liabilities** Consider these issues:		
a. Did the engagement team perform an adequate search for unrecorded liabilities as close as possible to the opinion date?		
b. Did the engagement team consider expenses that might require accrual (e.g., pensions, compensated absences, other postretirement benefits, or postemployment benefits provided to former or inactive employees prior to retirement) and whether accrued expenses were reasonably stated?		
4. **Revenue and Expenses** Consider these issues (AU-C 520)		
a. Did the engagement team compare revenue and expenses for the period to expectations, based on the budget and the results of the preceding period?		
b. For significant variances and fluctuations from expectations, were management's explanations corroborated with other audit evidence, or if explanations could not be obtained, were other audit procedures performed to determine whether the variance is a misstatement?		
c. Did the engagement team consider		
i. the entity's revenue recognition policy,		
ii. unusual transactions, and		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
iii. fraud risks?		
d. Do tests appear adequate, and were proper conclusions drawn?		
5. **Statement of Budgetary Resources (SBR)** Consider these issues:		
a. Were appropriate procedures applied, such as		
i. understanding and testing the budget execution controls;		
ii. tests of the process of preparing the SBR and controls for ensuring ongoing validity of undelivered order (UDO) balances;		
iii. tests of budgetary resources reported in the SBR, such as appropriations and recoveries from downward adjustments to prior-year UDOs, and including the consistency of recorded offsetting collections to related assets, liabilities, revenues, and expended and unexpended appropriation accounts;		
iv. tests of obligations incurred and upward adjustments to prior-year UDO activities for the fiscal year;		
v. tests for ongoing validity of UDO balances, with emphasis on UDOs from prior budget fiscal years, as of the reporting date;		
vi. tests of budgetary balances for ending obligations, such as delivered orders unpaid, delivered orders paid, and unobligated balances, among others, to related components of the FBWT account for consistency; and		
vii. review of the reconciliation of the prior-year SBR to the President's Budget?		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
6. Did the engagement team evaluate the design and implementation of relevant controls at the entity (user entity) that relate to the services provided by the service organization(s), including those that are applied to the transactions processed by the service organization? (FAM 640)		
7. Did the engagement team perform overall analytical procedures? (FAM 520 and FAM 590)		
8. Does the documentation indicate that the engagement team properly performed procedures in the reporting phase of the audit (FAM 590) as follows:		
a. Document all misstatements accumulated during the audit (other than clearly trivial ones) and identified those that were not corrected? (FAM 540)		
b. Evaluate misstatements, including considering whether any misstatements are indicative of fraud? (FAM 540)		
c. Identify uncorrected factual, judgmental, and projected misstatements in the testing of the key areas (step a above), include them on the Schedule of Uncorrected Misstatements (FAM 540 and FAM 595 C), and bring them to the attention of entity management and those charged with governance? (FAM 540)		
d. Assess overall audit risk (audit exposure), including uncorrected and undetected misstatements, untested amounts, sampling precision, and qualitative considerations, and the effect on the financial statements? (FAM 545)		
e. Directly obtain legal representations? (FAM 550 and FAM 1002)		
f. Review subsequent events? (FAM 550 and FAM 1005)		
g. Obtain management representations? (FAM 550 and FAM 1001)		
h. Identify and evaluate related-party transactions? (FAM 550 and FAM 904)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
i. Communicate with those charged with governance? (FAM 550)		
j. Review the consistency of the RSI, including Management's Discussion and Analysis (MD&A), RSSI, and other information in the entity's report containing the financial statements (usually a performance and accountability report or an annual financial report)? (FAM 550)		
9. Did the engagement team evaluate the severity of each internal control deficiency identified and determine whether the deficiency, individually or in combination with others, is a material weakness or a significant deficiency? (FAM 540 and FAM 580)		
10. Were significant findings, issues, and/or internal control deficiencies communicated with management, those charged with governance, and others, including the nature of the significant findings, issues, and/or internal control deficiencies? (FAM 540, FAM 550, and FAM 590)		
11. Does the audit summary memorandum or equivalent properly summarize or refer to documentation (FAM 590) addressing the following? (Note: If the situation/issue did not occur, then answer N/A.)		
a. Any significant changes from the auditor's original assessment of the risk of material misstatement.		
b. Any additional fraud risks or other conditions beyond those considered in planning (FAM 260), including analytical relationships identified during the audit that caused the auditor to believe that additional audit procedures or any other response was required, as well as any further response that the auditor concluded was appropriate.		
c. The results of the procedures performed to specifically address the risk of management override of controls, including the consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments (AU-C 700.15).		
d. Whether the financial statements agree or reconcile with the underlying accounting records (AU-C 330.33).		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
e. The auditor's evaluation of misstatements that the auditor believes are or might be the result of fraud.		
f. The nature of any communications about fraud or possible fraud (and any significant abuse) made to management, those charged with governance, the Special Investigator Unit, the Office of Inspector General, or others.		
g. The auditor's summary conclusions related to the consideration of fraud.		
h. Significant accounting, auditing, or reporting issues.		
i. Any limitations on the audit scope and the auditor's assessment of whether the audit procedures were adequate to support conclusions on the financial statements; internal control; the financial management systems' substantial compliance with FFMIA requirements (for CFO Act agencies); compliance with applicable provisions of laws, regulations, contracts, and grant agreements; RSI; RSSI; and other information.		
j. The auditor's conclusions on whether the audit evidence obtained is sufficient, appropriate, and supports the conclusions on the financial statements; internal control; the financial management systems' substantial compliance with FFMIA requirements; compliance with applicable provisions of laws, regulations, contracts, and grant agreements; RSI; RSSI; and other information.		
k. The auditor's conclusions on whether sufficient appropriate audit evidence was obtained to reduce audit risk to an appropriately low level.		
l. The auditor's conclusion on whether the audit was performed in accordance with GAGAS; OMB audit guidance, if applicable; and the FAM, and whether the report is appropriate.		
m. The auditor's conclusion on whether the entity's financial statements are in accordance with U.S. GAAP.		
n. Significant subsequent events, if any.		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
o. The Summary of Uncorrected Misstatements (FAM 595 C) and communication of known and likely misstatements to management and those charged with governance.		
p. A summary of internal control deficiencies classified as material weaknesses, significant deficiencies, and other control deficiencies, and a comparison of material weaknesses that the auditor found to the material weaknesses reported in management's assertion about the effectiveness of internal control.		
q. A summary of instances of the financial management systems not complying substantially with FFMIA requirements, and areas in which there is substantial but not full compliance (for CFO Act agencies).		
r. A summary of instances of noncompliance with applicable provisions of laws, regulations, contracts, and grant agreements.		
s. Documentation of overall analytical procedures.		
t. Documentation of oral or written communication required to be communicated with management, those charged with governance, and others, including the nature of the significant findings or issues discussed, and when and with whom the discussions took place (AU-C 230.11).		
u. The auditor's conclusion on the adequacy of two-way communication with those charged with governance.		
v. Whether the audit director and the reviewer approved any deviations from the applicable "should" procedures in the FAM and the basis for the deviations. (See section III).		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
12. In addition to the questions above, answer the following regarding whether the auditor achieved the following objectives. AU-C 200.23 states that the auditor should use the objectives stated in individual AU-C sections in planning and performing the audit considering the interrelationships within GAAS to (a) determine whether any audit procedures in addition to those required by individual AU-C sections are necessary in pursuance of the objectives stated in each AU-C section and (b) evaluate whether sufficient appropriate audit evidence has been obtained. Did the auditor achieve the following objectives?		
a. Did the auditor • obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses, and • respond appropriately to fraud or suspected fraud identified during the audit? (AU-C 240)		
b. Did the auditor do the following: • Obtain sufficient appropriate audit evidence regarding material amounts and disclosures in the financial statements that are determined by the provisions of those laws and regulations generally recognized to have a direct effect on their determination? • Perform specified audit procedures that may identify instances of noncompliance with provisions of other laws and regulations that may have a material effect on the financial statements? • Respond appropriately to noncompliance or suspected noncompliance with provisions of laws and regulations identified during the audit? (AU-C 250)		
c. In addition to the AICPA requirements (AU-C 250) concerning fraud and noncompliance with provisions of applicable laws and regulations, when performing a GAGAS financial audit, did the auditor extend the AICPA requirements pertaining to the auditor's responsibilities for laws and regulations to also apply to consideration of compliance with provisions of contracts or grant agreements? (GAGAS (2011) 4.06)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
d. Did the auditor obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement through designing and implementing appropriate responses to those risks? (AU-C 330)		
e. When the user entity used the services of a service organization, did the auditor design and perform audit procedures responsive to those risks? (AU-C 402)		
f. Did the auditor evaluate the effect of identified misstatements on the audit and uncorrected misstatements, if any, on the financial statements? (AU-C 450.03 a and b)		
g. Did the auditor design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion? (AU-C 500)		
h. Did the auditor obtain sufficient and appropriate audit evidence regarding • valuation of investments in securities and derivative instruments; • existence and condition of inventory; • completeness of litigation, claims, and assessments involving the entity; and • presentation and disclosure of segment information, in accordance with the applicable financial reporting framework? (AU-C 501)		
i. Did the auditor, when using external confirmation procedures, design and perform such procedures to obtain relevant and reliable audit evidence?		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
j. Did the auditor, in conducting an initial audit engagement, including a reaudit engagement (an initial audit engagement to audit financial statements that have been previously audited by a predecessor auditor), obtain sufficient appropriate audit evidence regarding opening balances about whether • opening balances contain misstatements that materially affect the current period's financial statements and • appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework? (AU-C 510)		
k. Did the auditor • obtain relevant and reliable audit evidence when using substantive analytical procedures and • design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion about whether the financial statements are consistent with the auditor's understanding of the entity? (AU-C 520)		
l. Did the auditor, when using audit sampling, provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected? (AU-C 530)		
m. In the context of the applicable financial reporting framework, did the auditor obtain sufficient appropriate audit evidence about whether • accounting estimates, including fair value accounting estimates, in the financial statements, whether recognized or disclosed, are reasonable and • related disclosures in the financial statements are adequate? (AU-C 540)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
n. Did the auditor do the following: • Obtain a sufficient understanding of related-party relationships and transactions sufficient to be able to: ◦ recognize fraud risk factors, if any, arising from related-party relationships and transactions that are relevant to identifying and assessing the risks of material misstatement due to fraud and ◦ conclude, based on the audit evidence obtained, whether the financial statements, insofar as they are affected by those relationships and transactions, achieve fair presentation? • Obtain sufficient appropriate audit evidence about whether related-party relationships and transactions have been appropriately identified, accounted for, and disclosed in the financial statements? (AU-C 550)		
o. Did the auditor • obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework and • respond appropriately to facts that become known to the auditor after the date of the auditor's report that had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report? (AU-C 560)		
p. If the auditor is a predecessor auditor who is requested to reissue a previously issued auditor's report on financial statements that are to be presented on a comparative basis with audited financial statements of a subsequent period, did the auditor perform specified procedures to determine whether the previously issued auditor's report is still appropriate before such report is reissued? (AU-C 560)		

Section II: Performing the Engagement	N/A, Yes, No*	Ref.
q. Did the auditor • evaluate and conclude, based on the audit evidence obtained, whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time; • assess the possible financial statement effects, including the adequacy of disclosure regarding uncertainties about the entity's ability to continue as a going concern for a reasonable period of time; and • determine the implications for the auditor's report? (AU-C 570)		
r. Did the auditor • obtain written representations from management and, when appropriate, those charged with governance that they believe that they have fulfilled their responsibilities for the preparation and fair presentation of the financial statements and for the completeness of the information provided to the auditor (AU-C 580.A2); • support other audit evidence relevant to the financial statements or specific assertions in the financial statements through written representations if determined necessary by the auditor or required by other AU-C sections; and • respond appropriately to written representations provided by management and, when appropriate, those charged with governance or if management or, when appropriate, those charged with governance do not provide the written representations requested by the auditor? (AU-C 580)		
s. Did the auditor assess the effect of omitted procedures of which the auditor becomes aware on the auditor's present ability to support the previously expressed opinion on the financial statements and respond appropriately? (AU-C 585)		

Section III: Consulting and Using Audit Specialists	N/A, Yes, No*	Ref.
1. If expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, did the engagement team use the work of an auditor's specialist (IS auditors, actuaries, and those who value assets)? (FAM 620)		
2. Where warranted by the complexity or unusual nature of an issue (for example, issues where the FAM requires consultation, issues not discussed in the FAM or professional standards, going concern issues, economic dependency issues, issues arising after report issuance), was there appropriate consultation that was fully documented with specialists, including the		
a. reviewer,		
b. audit sampling specialist, and		
c. Office of the General Counsel (OGC)?		
3. When applicable, did the audit team consult with the reviewer when taking the following steps:		
a. Planning to perform multiyear control testing and receiving reviewer approval? (FAM 495 F)		
b. Using nonstatistical sampling and receiving reviewer approval? (This is not the same as nonrepresentative selection (nonsampling) as it does not involve projections.) (FAM 480)		
c. Determining the adequacy of substantive procedures in light of any reassessment of risk of material misstatement. (FAM 530)		
d. Determining the need to perform additional procedures when there are questions about the adequacy of work performed? (FAM 530)		
e. Evaluating the audit risk (including uncorrected and undetected misstatements, untested amounts, sampling precision, and qualitative considerations) and the effect on the financial statements? (FAM 545)		

Section III: Consulting and Using Audit Specialists	N/A, Yes, No*	Ref.
f. Determining the effects on the auditor's report and current-period statements, if any, of material misstatements detected in the current year that arose during prior periods but were not detected during prior audits? (FAM 540)		
g. Deciding to perform additional procedures to increase assurance of any projected misstatements? (FAM 440 and 480)		
h. The engagement team believes a misstatement may be the result of fraud? (FAM 540)		
i. Deciding to include a discussion of fraud in the audit report that involves senior management or that causes a material misstatement of the financial statements? (FAM 540)		
j. Concluding on whether the financial statements are materially affected by a departure from U.S. GAAP and the reviewer should approve? (FAM 580)		
k. Determining the appropriate type of opinion on internal control when there is a scope limitation? (FAM 580)		
l. Determining the effects on the auditor's report if weaknesses are found in compliance controls but no instances of noncompliance are detected? (FAM 580)		
4. When applicable, did the audit team consult with the audit sampling specialist when taking the following steps:		
a. Designing and evaluating samples and determining the costs and benefits when deciding the appropriate type of sampling to use? (FAM 410)		
b. Computing the combined precision for all sampling applications? (FAM 545.02)		
c. Expanding the sample size to test additional items? (FAM 440, 450, 460, and 480)		

Section III: Consulting and Using Audit Specialists	N/A, Yes, No*	Ref.
d. Continuing to test a sample when deviations exceed the acceptable number? (FAM 450)		
e. Deciding to perform nonstatistical sampling? (FAM 480.13)		
f. Using regression analysis for analytical procedures? (FAM 495 A)		
5. When applicable, did the audit team consult with the OGC when taking the following steps:		
a. Identifying provisions of laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements? (FAM 245)		
b. Identifying relevant budget restrictions? (FAM 250)		
c. Identifying any impoundments (rescissions or deferrals) as a result of evaluating budgetary controls? (FAM 395 F)		
d. Evaluating possible instances of noncompliance noted in connection with compliance testing (including testing of contracts and grant agreements)? (FAM 460)		
e. After consulting with the audit director and reviewer, the engagement team believes that a misstatement is or might be a result of fraud? (FAM 540)		
f. Concluding on any noncompliance with significant provisions of laws and regulations? (FAM 580)		
g. Concluding whether the entity's financial management systems comply substantially with the requirements of FFMIA? (FAM 580)		
h. Determining the effects on the auditor's report if weaknesses are found in compliance controls but no instances of noncompliance are detected? (FAM 580)		

Section III: Consulting and Using Audit Specialists	N/A, Yes, No*	Ref.
6. In addition to the questions above, determine whether the auditor achieved the following objectives. AU-C 200.23 states that the auditor should use the objectives stated in individual AU-C sections in planning and performing the audit considering the interrelationships within GAAS to (a) determine whether any audit procedures in addition to those required by individual AU-C sections are necessary in pursuance of the objectives stated in each AU-C section and (b) evaluate whether sufficient appropriate audit evidence has been obtained. Did the auditor achieve the following objectives?		
Did the auditor • determine whether to use the work of an auditor's specialist and • if using the work of an auditor's specialist, determine whether that work is adequate for the auditor's purposes? (AU-C 620)		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
1. Is the auditor's report appropriate as to the following (FAM 580):		
a. Wording?		
b. Management's responsibilities?		
c. Auditor's responsibilities?		
d. Opinion/disclaimer on financial statements?		
e. Emphasis of matters?		
f. Opinion/conclusions on internal control?		
g. Conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA (for CFO Act agencies)?		
h. Reporting on compliance with provisions of applicable laws, regulations, contracts, and grant agreements?		
i. Reporting on other matters, such as RSI and other information?		
j. Agency comments?		
2. Is background material (purpose, authority, and functions of programs/activities) limited to what is necessary?		
3. Were the auditor's report and the management representation letter dated when all appropriate, sufficient audit evidence is obtained to support the opinion and all significant issues have been resolved? (FAM 550 and FAM 580)		
4. Does the auditor's report cover all periods for which financial statements are presented? (FAM 580)		
5. If the financial statements of a prior period are presented and have been audited by a predecessor auditor whose report is not presented, does the auditor's report refer to the predecessor auditor's report? (FAM 580)		
6. When illegal acts occurred involving funds received from other governmental entities, did the engagement team		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
a. satisfy itself that the audited entity notified the proper officials of those entities within a reasonable time and		
b. report these acts to the officials of those other governmental entities if the entity did not, or was unable to do so because the top official was involved? (GAGAS (2011) 4.30)		
7. Does the auditor's report include		
a. identification of significant deficiencies and material weaknesses (GAGAS (2011) 4.23) and		
b. presentation of all identified (1) instances of fraud and illegal acts that are more than inconsequential, (2) material violations of provisions of contracts or grant agreements, and (3) material abuse? (GAGAS (2011) 4.23)		
8. When appropriate, did the engagement team report directly to outside parties on fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse? (GAGAS (2011) 4.30)		
9. Did the auditor consider the status of all known significant findings and recommendations from prior audits that affect the current-year report, including whether any failure to correct previously identified deficiencies in internal control is a significant deficiency or material weakness? (GAGAS (2011) 4.05)		
10. Did the auditor document the basis to support (FAM 590) the		
a. opinion about whether the financial statements and disclosures comply in all material respects with U.S. GAAP;		
b. opinion/conclusion on internal control,		
c. conclusion on whether the entity's financial management systems comply substantially with the requirements of FFMIA (for CFO act agencies); and		
d. conclusion on compliance with provisions of applicable laws, regulations, contracts, and grant agreements?		
11. Did the auditor document the basis for reported findings on		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
a. internal control deficiencies, including classification of control deficiencies as material weaknesses, significant deficiencies, or other control deficiencies (FAM 590);		
b. the entity's financial management systems not complying substantially with the requirements of FFMIA (for CFO act agencies) (FAM 590); and		
c. noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements (FAM 590), if any?		
12. Did the auditor develop the elements of audit findings to include (where appropriate and known) the		
a. condition (describe the existing situation),		
b. criteria (state what we are comparing to),		
c. cause (reflect reason or reasons why the condition and criteria differ), and		
d. effect (describe the result of the difference between the condition and criteria)? (FAM 580 and GAGAS (2011) 4.10-.14)		
13. Are recommendations and suggestions (if any) reasonable, doable, and cost-effective?		
14. Does the report obtain the views of responsible officials in agency comments, including		
a. either oral or written comments;		
b. titles of senior official(s) involved (oral comments only);		
c. accurate characterization of general agreement or disagreement with the report;		
d. description of the substance of the comments; and		
e. auditor evaluation of the comments, particularly if comments disagree, are inconsistent, or conflict with the report findings, conclusions, or recommendations. (GAGAS (2011) 4.33 through .39)		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
15. Were control deficiencies that do not meet the criteria for significant deficiencies and do not affect the auditor's conclusions as to the effectiveness of internal controls communicated in writing to management and those charged with governance? (FAM 580, FAM 590, and GAGAS (2011) 5.23)		
16. In addition to the questions above, answer the following regarding whether the auditor achieved the following objectives. AU-C 200.23 states that the auditor should use the objectives stated in individual AU-C sections in planning and performing the audit considering the interrelationships within GAAS to (a) determine whether any audit procedures in addition to those required by individual AU-C sections are necessary in pursuance of the objectives stated in each AU-C section and (b) evaluate whether sufficient appropriate audit evidence has been obtained. Did the auditor achieve the following objectives?		
a. Did the auditor • provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process and • promote effective two-way communication between the auditor and those charged with governance? (AU-C 260)		
b. Did the auditor appropriately communicate to those charged with governance and management deficiencies in internal control that the auditor identified during the audit and that in the auditor's professional judgment, are of sufficient importance to merit their respective attentions (e.g., material weaknesses, significant deficiencies, and any other identified deficiencies in internal control)? (AU-C 265)		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
c. If the auditor determines to act as the auditor of the group financial statements, did the auditor • determine whether to make reference to the audit of a component auditor in the auditor's report on the group financial statements; • communicate clearly with component auditors; and • obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion about whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework? (AU-C 600)		
d. Did the auditor • form an opinion on the financial statements based on an evaluation of the audit evidence obtained, including evidence obtained about comparative financial statements or comparative financial information, and • express clearly that opinion on the financial statements through a written report that also describes the basis for that opinion? (AU-C 700)		
e. Did the auditor express clearly an appropriately modified opinion on the financial statements that is necessary when • the auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are materially misstated or • the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement? (AU-C 705)		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
f. Did the auditor, having formed an opinion on the financial statements, draw users' attention—when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report—to • a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or • as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report? (AU-C 706)		
g. Did the auditor • evaluate the consistency of the financial statements for the periods presented and • communicate appropriately in the auditor's report when the comparability of financial statements between periods has been materially affected by a change in accounting principle or by adjustments to correct a material misstatement in previously issued financial statements? (AU-C 708)		
h. Did the auditor respond appropriately when the auditor becomes aware that documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report? (AU-C 720)		
i. Did the auditor, when engaged to report on supplementary information in relation to the financial statements as a whole, • evaluate the presentation of the supplementary information in relation to the financial statements as a whole and • report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole? (AU-C 725)		

Section IV: Communicating and Reporting Results	N/A, Yes, No*	Ref.
j. When providing an opinion or a disclaimer on financial statements, did the auditor also report on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements? Did the auditor report on internal control and compliance, regardless of whether the auditor identified internal control deficiencies or instances of noncompliance? (GAGAS (2011) 4.19)		
k. When a designated accounting standards setter required information to accompany an entity's basic financial statements, did the auditor perform specified procedures in order to • describe, in the auditor's report, whether required supplementary information is presented and • communicate when some or all of the required supplementary information has not been presented in accordance with guidelines that a designated accounting standards setter established or when the auditor has identified material modifications that should be made to the RSI for it to be in accordance with the standards setter's guidelines? (AU-C 730)		
l. Did the auditor restrict the use of the auditor's written communication by including an alert when the potential exists for such written communication to be misunderstood if taken out of the context in which it is intended to be used? (AU-C 905)		

Section V: GAO's Quality Control (GAO Only)	N/A, Yes, No*	Ref.
1. Was the GAO report reviewed by the		
a. audit director (first/engagement partner),		
b. engagement quality control reviewer (second partner),		
c. OGC (Form 124A), and		
d. other stakeholders (Form124C)?		

Section V: GAO's Quality Control (GAO Only)	N/A, Yes, No*	Ref.
2. Did the audit director (first/engagement partner) review the		
a. audit strategy or equivalent, including sampling approach (FAM 290);		
b. line item risk analyses or equivalent for material areas with high or moderate risk of material misstatement (FAM 290),		
c. audit summary memorandum (FAM 590),		
d. management representation letter (FAM 1001),		
e. legal representation letter (FAM 1002),		
f. schedule of uncorrected misstatements (FAM 595 C),		
g. GAO report with entity financial statements and related disclosures, and		
h. exit conference memorandum (FAM 590)?		
3. Did the assistant director review the		
a. entity profile or equivalent (FAM 290);		
b. audit strategy or equivalent, including sampling approach (FAM 290);		
c. line item risk analyses or equivalent (FAM 290);		
d. initial audit plan with procedures (FAM 290);		
e. line item/account lead schedules;		
f. completed audit plan with procedures (FAM 290);		
g. specific control evaluations (FAM 390);		
h. audit summary memorandum (FAM 590);		

Section V: GAO's Quality Control (GAO Only)	N/A, Yes, No*	Ref.
i. Checklist for Federal Accounting (FAM 2010) and Checklist for Federal Reporting and Disclosures (FAM 2020) for statements using U.S. GAAP promulgated by FASAB, financial reporting and disclosure checklist for statements using U.S. GAAP promulgated by Financial Accounting Standards Board, or an equivalent U.S. GAAP checklist;		
j. management representation letter (FAM 1001);		
k. legal representation letter (FAM 1002);		
l. schedule of uncorrected misstatements (FAM 595 C);		
m. exit conference memorandum (FAM 590); and		
n. GAO report with entity financial statements and related disclosures?		
4. Did the assistant director determine that all significant review notes were resolved appropriately?		
5. Did the assistant director indicate that all documentation was sufficiently reviewed?		
6. Were review notes, superseded versions of documentation, and draft reports (except the referenced draft and the draft sent to the entity for comment), including review notes and superseded versions in electronic form, placed in a separate folder to be retained until the report is released, after which they may be destroyed or deleted electronically up to 60 days after the report release date?		
7. Were review responsibilities documented and communicated to all individuals on the engagement?		
8. Was any documentation prepared by an IS specialist reviewed by an (IS) manager or (IS) assistant director for technical content and by a member of the engagement team to determine that related audit objectives were achieved?		
9. For areas that are both material and have high risk of material misstatement, did the audit director or assistant director perform secondary reviews of the documentation?		

Section V: GAO's Quality Control (GAO Only)	N/A, Yes, No*	Ref.
10. Was all documentation prepared by the audit director or assistant directors read by the auditor-in-charge to determine its consistency with any related documentation?		
11. If the documentation indicated a difference of opinion between engagement personnel or between engagement personnel and a specialist or other person consulted, was the difference resolved appropriately and was the basis of the resolution documented?		
12. In addition to the questions above, answer the following regarding whether the auditor achieved the following objectives. AU-C 200.23 states that the auditor should use the objectives stated in individual AU-C sections in planning and performing the audit considering the interrelationships within GAAS to (a) determine whether any audit procedures in addition to those required by individual AU-C sections are necessary in pursuance of the objectives stated in each AU-C section and (b) evaluate whether sufficient appropriate audit evidence has been obtained. Did the auditor achieve the following objectives?		
a. Did the auditor, in conducting an audit of financial statements, • obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework, and • report on the financial statements, and communicate as required by GAGAS, in accordance with the auditor's findings? (AU-C 200)		
b. In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for reporting to the intended users of the financial statements, did the auditor disclaim an opinion or withdraw from the engagement, when withdrawal is possible under applicable law or regulation, as required by GAGAS? (AU-C 200)		

Section V: GAO's Quality Control (GAO Only)	N/A, Yes, No*	Ref.
c. Did the auditor implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that • the audit complies with professional standards and applicable legal and regulatory requirements and • the auditor's report issued is appropriate in the circumstances? (AU-C 220)		
d. Did the auditor prepare documentation that provides • a sufficient and appropriate record of the basis for the auditor's report and • evidence that the audit was planned and performed in accordance with GAAS and applicable legal and regulatory requirements? (AU-C 230)		

Section VI: Explanation of "No" Answers and Other Comments

The page below is provided for comments on all "No"* answers or to expand upon any of the "Yes" and "N/A" answers as needed, and may be modified as necessary.

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

Page no.	Question no.	Explanatory comments	Conclusion

Section VII: Conclusions	**Yes**	**No****
Based on your review and knowledge, are the following statements correct?		
1. The engagement team planned and performed the engagement, in all material respects, in accordance with GAGAS (which includes U.S. GAAS) and applicable OMB guidance, or if not the auditor's report was appropriately modified.		
2. The financial statements conformed, in all material respects, with U.S. GAAP, or if not the auditor's report was appropriately modified.		
3. The auditor's report was appropriate in the circumstances (AU-C 220.03).		
4. The documentation on this engagement supports the auditor's • opinion on the financial statements; • opinion/conclusions on internal control; • conclusions on whether the entity's financial management systems substantially comply with the requirements of FFMIA (for CFO Act agencies); and • conclusions on compliance with provisions of applicable laws, regulations, contracts, and grant agreements.		
5. The engagement team complied, in all material respects, with the audit organization's policies and procedures.		

**If any of the above five statements have "No" responses, describe the response in a memorandum to the reviewer.

Date of audit completion _____

Auditor-in-Charge _____ Date _____

Assistant Director _____ Date _____

Audit Director _____ Date _____

Section VIII: Engagement Quality Control Review (Second Partner[144] Review)

Objective of second partner review: To evaluate the engagement team's judgments and the conclusions reached in formulating the auditor's report objectively.
Procedures: My evaluation, including that required for documenting the engagement quality control review, involved the following:

1. Discussing significant auditing, accounting, and reporting findings or issues with the audit director (first/engagement partner).
2. Reading the financial report, including the financial statements and other information and the proposed audit report.
3. Reviewing selected documentation relating to the significant judgments and key decisions of the engagement team and the related conclusions it reached, including, as appropriate, reviewing selected documentation consisting of
   a. the audit summary memorandum, which contains the conclusions reached in formulating the auditor's report and other selected documentation as appropriate;
   b. the summary of uncorrected misstatements; and
   c. consultations with audit sampling specialists, IS specialists, and others.
4. Confirming with the audit director (first/engagement partner) that there are no unresolved issues.

Conclusion: Based on all the relevant facts of which I have knowledge, I found no matters, other than those that may be discussed in the auditor's report, that cause me to believe that (1) the audit was not performed in accordance with GAGAS and OMB audit guidance (if applicable); (2) the financial statements are not, in all material respects, in conformity with U.S. GAAP; and (3) the report is not in accordance with professional standards and the auditor's policies. Also, I am unaware of any unresolved matters that cause me to believe that the significant judgments of the engagement team and the conclusions it reached were not appropriate.

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

_____ _____

Engagement quality control reviewer name and title Signature Date

[144]For GAO financial audits, this is the chief accountant.

1005 – Subsequent Events Review

.129 This section discusses the subsequent events review that the auditor **should** perform as part of the audit, as described in FAM 550. AU-C 560 describes and provides guidance on the types of subsequent events that the auditor should evaluate as well as the procedures that the auditor should perform to discover whether such events have occurred. The auditor should perform audit procedures designed to obtain sufficient appropriate audit evidence that all subsequent events that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions (AU-C 560.09).

.130 Subsequent events are those events or transactions that affect the basic information or the RSI that may occur or become known between the date of the financial statements and the date of the auditor's report.

.131 Two types of subsequent events may occur:

- Recognized events: Subsequent events that provide additional evidence with respect to conditions that existed at the date of the financial statements and affect the estimates inherent in the process of preparing basic information and the RSI. For example, a subsequent event may reveal that an accounting estimate is materially incorrect and that the auditor should ask management to adjust the financial statements for the effect of the event.
- Nonrecognized events: Subsequent events that provide evidence with respect to conditions that did not exist at the date of the financial statements but arose subsequent to that date. For example, a fire or flood after year-end may cause a significant loss (SFFAS 39).

.132 The purpose of a subsequent events review is to determine whether all subsequent events that have a material effect on the financial statements have been considered and treated appropriately in the financial statements. The subsequent period covered is from the date of the financial statements to the date of the auditor's report, which is the date of the completion of the audit. If management revises the financial statements for subsequently discovered facts after the original date of the auditor's report, see AU-C 560.13 for further guidance.

Audit Procedures

.133 At or near the completion of the audit, the auditor should perform procedures to be aware of any subsequent events that the auditor may ask management to adjust or disclose in the financial statements. These procedures are in addition to substantive tests that the auditor may apply to transactions occurring after the date of the financial statements, such as examining subsequent disbursements to test completeness of accounts payable.

.134 The following program describes audit procedures that the auditor should perform as part of a subsequent events review. The auditor should customize the

procedures for the particular entity and should take into account the auditor's risk assessment in determining the nature and extent of such audit procedures (AU-C 560.10).

Entity _____

Period of financial statements _____

Job code _____

Subsequent Events Review Program – Audit Procedures	**Done by/date**	**Doc. ref.**
I. Management's procedures 1) Obtain an understanding of any procedures that management has established to ensure that subsequent events are identified (AU-C 560.10a.). See SFFAS 39 for management's responsibilities.		
II. Read latest subsequent interim financial statements (AU-C 560.10.d) 2) Compare the latest available interim financial statements, if any, with the financial statements under audit to identify any unusual adjustments and investigate any significant variations from expectations. 3) Inquire as to whether the interim statements have been prepared on the same basis as the annual statements. 4) Compare items in the statement of net costs to similar interim financial statements of the prior year; determine expectations and investigate any significant variations from expectations. 5) If interim financial statements are not available: a) Compare interim internal financial reports or analyses, budgets, or cash flow forecasts, considering any adjustments to the internal reports that may be necessary to make meaningful comparisons. b) Review the accounting records prepared since the date of the financial statements for material transactions that may require adjustment to or disclosure in the financial statements. For example, scan the general ledger and/or journals, or both for material, unusual entries.		

Subsequent Events Review Program – Audit Procedures	Done by/date	Doc. ref.
III. Make inquiries of management and, when appropriate, those charged with governance as to whether any subsequent events have occurred that might affect the financial statements (AU-C 560.10.b): 6) Whether any significant contingent liabilities or commitments existed at the date of the financial statements or at the date of the inquiry. 7) Whether any significant changes occurred in the financial condition of the entity or in net position or long-term debt. 8) The current status of items in the financial statements that were accounted for on the basis of tentative, preliminary, or inconclusive data. 9) Whether any significant changes in estimates were made with respect to amounts included or disclosed in the financial statements, or any significant changes in assumptions or factors were considered in determining estimates. 10) Whether any unusual adjustments were made or contemplated during the period from the date of the financial statements to the date of inquiry. 11) Whether any significant events occurred subsequent to the date of the financial statements, such as commitments or plans for major capital expenditures; lawsuits or claims filed or settled other than those disclosed in the legal representation letters; changes in accounting and financial policies; or losses as a result of fire, flood, or other disaster. Additionally, if such event occurred, consider whether the event brings into question the appropriateness of accounting policies used in the financial statements. 12) Whether any changes in internal control over financial reporting or conditions that might significantly affect internal control over financial reporting subsequent to the as of date but before the date of the auditor's report. (AU-C 940.48)		

Subsequent Events Review Program – Audit Procedures	Done by/date	Doc. ref.
IV. Read minutes and related reports 1) Read the available minutes of meetings of management and/or those charged with governance, such as entity management committees, audit committees, or other appropriate groups, held after the date of the financial statements for information about events or transactions authorized or discussed that may require adjustment to or disclosure in the financial statements (AU-C 560.10.c). 2) With regard to meetings for which no minutes are available, inquire about matters discussed at such meetings and conclusions reached (AU-C 560.10.c). 3) Obtain additional information about changes in internal control or other factors that might significantly affect the effectiveness of the entity's internal control, by inquiring about and examining, for this subsequent period, the following: • Relevant internal audit (or inspector general) reports issued during the subsequent period. • Reports regarding deficiencies issued by other Independent auditors. • Information about the effectiveness of the entity's internal control over financial reporting obtained through other engagements performed for the entity by the auditor. (AU-C 940.48)		
V. Coverage in legal representation letters 4) Confirm litigation, claims, and assessments and unasserted claims and assessments with the entity's legal counsel per AU-C 501.		
VI. Coverage in management representation letter 5) Have management include representations in its management representation letter as to whether any events occurred subsequent to the date of the financial statements that management should adjust or disclose in the financial statements. See FAM 1001. 6) Obtain written representations from management relating to any changes in internal control or other factors that might significantly affect internal control subsequent to the date as of which internal control is being examined.		

Subsequent Events Review Program – Audit Procedures	**Done by/date**	**Doc. ref.**
VII. Other 7) Use other sources of information to learn of subsequent events, such as a) the inspector general or internal audit department, b) program divisions, and c) newspapers. 8) Make additional inquiries or perform additional procedures deemed necessary to resolve any questions raised in the foregoing audit steps.		
VIII. Summarize **9)** Prepare a summary memo documenting the results of the work performed above and conclusions reached. If subsequent events were identified, ensure that the information was treated appropriately in the financial statements.		