

AUP Additional Guidance¹

1) Attestation standards for AUP performed under AT-C 215A do not require practitioners to assess the risk of errors occurring in transactions they have not tested. However, if a procedure results in reporting exceptions as either findings for adjustment or findings for recovery (see the following two bullet points), the Auditor of State (as a specified party) requires IPAs (and AOS staff) to contact the AOS regional chief and describe the exception, prior to completing the AUP report. The AOS may then require you to expand the procedures as deemed necessary to determine the existence of additional findings for adjustment or recovery.

2) The *Ohio Compliance Supplement* Implementation Guide includes guidance about *Findings for Adjustment* (FFA).

The FFA guidance about opinion and GAGAS report effects, and about materiality do not apply to AUP, but certain other guidance does apply, such as:

- a) The definition of FFA in the first paragraph of the *Findings for Adjustment* section.
- b) Determining whether the AUP finding should include a “finding for adjustment statement.”
- c) The *FFA Procedures for IPAs* apply, except the guidance pertaining to financial statement opinions and GAGAS reports. (i.e. For example, IPAs **should** contact the regional AOS Chief Auditor.)

If you identify a FFA, the AUP report should state whether or not the entity posted the adjustment to their accounting records, and your documentation should support whether or not the auditee posted the entry.

3) The *Ohio Compliance Supplement* Implementation Guide also includes guidance about *Findings for Recovery* (FFR). The guidance about opinion and GAGAS report effects do not apply to AUP, but certain other guidance does apply, such as:

- a) The four types of FFR
- b) The *Additional Policies for FFR for AOS Audits* guidance, including:
 - i. Contacting the AOS Legal Division
 - ii. Exit Conference Procedures
 - iii. Issuing the *Notice of Proposed FFR* and *Notice of FFR* letters.
 - 1. These are two separate letters, which are available in the OCS Implementation Guide.
 - 2. The example letter requires minor modification to describe AUP rather than an audit (“The Auditor of State is auditing.....” should be changed to “The Auditor of State is performing Agreed Upon Procedures on.....”).
 - iv. The *Additional Considerations* section in the OCS Implementation Guide applies.
- c) The *FFR for IPA* section in the OCS Implementation Guide applies to IPA AUP’s.

4) Most of the accounting report example titles match UAN report titles. If the entity does not use UAN, you should replace these report titles with the exact report titles the entity uses.

6) Throughout the report, the extent of testing prescribed is normally the maximum. In the outstanding check procedure, for example, if there were only two outstanding checks, replace “five” with “all”.

7) Because of the difficulty of defining “unusual transactions” that auditors normally scan for, this AUP report does not describe a scanning procedure. However, consider briefly scanning for unusual transactions. (You need not scan all

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transactions.) If you scan a transaction and ultimately determine, for example, that it represents an illegal payment, or was charged to the wrong fund, you can insert it in a step worded, for example, as follows: "We inspected the check register and found that check No. 12345 for \$54,321 paid from the XXX Fund for police salaries. This fund accounts for grant proceeds that [insert law] restricts to [insert purpose]. In accordance with the foregoing facts, we hereby issue a finding for adjustment against the XXX Fund and in favor of the ZZZ Fund for \$54,321."

- 9) Bulletin 2012-007 permits eligible governments to substitute AUP for two audit cycles (except CVBs which are permitted to have AUPs regardless of when the last audit was performed, see #10). However, if the first AUP report includes exceptions that would make them ineligible for AUP, the entity will be ineligible for AUP in the second cycle.
- a) AOS staff and IPAs should complete the current eligibility checklist to document the government's continuing eligibility for AUP for the second cycle.
 - b) We suggest completing as much of this checklist as possible upon completing the first AUP, to determine as soon as practical whether the subsequent engagement should budget for an audit, or for AUP.
 - c) Some of the criteria in questions 5 and 7 from the checklist relate to the results of an audit, such as whether:
 - i. The opinion was modified
 - ii. The entity was declared unauditible
 - iii. A control deficiency was material. We recognize that AUP results do not provide sufficient evidence to fully answer these questions. Nevertheless, if (for example) you have significant difficulty in obtaining or inspecting records related to the AUP, or find a significant number of exceptions, please discuss with the AOS regional chief auditor whether these issues suggest the entity should not be eligible for AUP in the following cycle. In *certain* circumstances, AOS reserves the right to initiate an audit of the government for the same period as the first AUP.
- 10) The Auditor of State has exercised its authority under Ohio Revised Code Section 117.10 to require CVBs to have financial statement audits performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' Government Auditing Standards. The auditor of State no longer requires financial statement audits of CVBs and now allows CVBs to have an AUP performed in accordance with the American Institute of Certified Public Accountants' attestation standards and applicable attestation engagement standards included in the Comptroller General of the United States' Government Auditing Standards, regardless of when the last audit was completed. It is possible that Agreed-upon Procedures may not meet the needs of each CVB. An individual CVB may determine that a financial statement audit is more beneficial to its users or may have an agreement that requires a financial statement audit. It is the responsibility of each CVB to examine its agreements and to determine if a financial statement audit is required.
- 11) Whenever an exception is found in an AUP step:
- a) **If the exception is a Finding for Adjustment (FFA), state whether it was corrected in the client's accounting records and maintain support in the working papers.** Per the OCS Implementation Guide, FFA's which **have** been posted are not called "FFA's" in the report, however, any change to a fund's balance is still technically an FFA (whether the FFA language is used or not).
 - i. We must report all errors over \$10. However, you only add the FFA language if a funds balance is affected *and* it meets the threshold stated in the OCS Implementation Guide. If the error is under the threshold, the step should just state whether the client posted the correction to their ledgers.
 - ii. IPA should report FFAs, but should not use the phrase "In accordance with the foregoing facts, we hereby issue a finding for adjustment. . ." See OCS Implementation Guide.
 - b) If we did not inspect all transactions (i.e. when we inspect ten non-payroll disbursements), add the following language to the exception: "However, because we did not inspect all non-payroll disbursements [*modify account caption as needed*], our report provides no assurance regarding whether or not other similar errors occurred."

- c) Normally auditors should not write full “audit report type” comments for the errors. Exceptions and errors should be stated in one or two sentences explaining exactly what was found (except for trustee salary citations). [i.e. GAGAS defines the elements of a finding to include: Criteria, Condition, Cause, & Effect. Normally errors found when performing AUP’s procedures can just document the condition (error that exists), (the criteria is already stated in the step)].
- 12) When an AUP report includes exceptions, and the following year is a regular audit, **the Schedule of Prior Year Audit Findings should not report the AUP exceptions**, as there is no requirement in the standards to do so. However, there is a requirement to follow up on prior year issues and determine whether they were corrected; when doing so, if you find that they are still occurring, report accordingly.
- 13) Auditors need not perform procedures on revenue types that are less than 10% of all funds’ receipts; and are not required to perform procedures on disbursements types (i.e. non-payroll) that are less than 10% of all funds’ disbursements; however, **debt steps 1 & 2 and certain identified payroll steps for Townships are always required.**
- a) This calculation should be performed on the 2 year total of receipts or disbursements, if the AUP period is 2 years.
- b) Whenever a step or section is removed from the shell, document the reason for removing it, and include it in the AUP documentation.
- 14) If the AUP shell was written assuming the entity has more than one fund, modify it appropriately if the entity only has one fund. For example, omit references to “funds” throughout the shell (i.e. in cash step 2 replace “beginning fund balances” with “beginning balance”).
- 15) When the entity uses a fiscal agent:
- a) replace the cash & investment steps with those in the Solid Waste District shell, and modify accordingly;
- b) for the payroll withholding remittance procedure, revise the paragraph before the table to state “We inspected the last remittance of tax and retirement withholdings for the year ended December 31, 20XX+1 to determine whether remittances were timely charged by the fiscal agent (XXX), and if the amounts charged agreed to the amounts withheld, plus the employer’s share where applicable, during the final withholding, period of 20XX+1. We found the following:”
- 16) AU-C 505.06 in part defines **external confirmation** as “Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium (for example, through the auditor’s direct access to information held by a third party).” Though rare, clients sometimes create fraudulent documents purporting to be from a third party, to conceal a theft. To reduce the risk of relying on a fraudulent document, AU-C 505.A14 suggests these steps we should apply when applicable:

“Responses received electronically (for example, by fax or e-mail) involve risks relating to reliability because proof of origin or identity of the confirming party may be difficult to establish, and alterations may be difficult to detect. The auditor may determine that it is appropriate to address such risks by utilizing a system or process that validates the respondent or by directly contacting the purported sender (for example, by telephone) to validate the identity of the sender of the response and to validate that the information received by the auditor corresponds to what was transmitted by the sender.

Therefore:

- A client-prepared document is not a confirmation, and is not sufficient evidence to satisfy the *occurrence* or *accuracy* assertions.
- We can use a client’s copy of correspondence from a “payor” only if we corroborate it with a phone call, e-mail, etc. to the payor.
- If the payor is a government subject to AOS / IPA audit, it is sufficient if our staff can agree the receipt to the

other government's payment records.

- We should revise the step to describe the procedure we used. For example, if evidence included an e-mail from the payor, we should explain this in the procedure.

- 17) Auditors generally should only complete the procedures listed in the AUP report. However, an exception to this is listed in AT-C 215A.41, which states *the practitioner need not perform procedures beyond the agreed-upon procedures. However, in connection with the application of agreed-upon procedures, if matters come to the practitioner's attention by other means **that significantly contradict the subject matter** (or written assertion related thereto) referred to in the practitioner's report, the practitioner should include this matter in his or her report.* Fundamental modifications to the steps listed in the AUP shells require regional chief auditor / assistant chief auditor approval.

If you encounter matters you believe are significantly contradictory, please consult with the regional chief auditor / assistant chief auditor regarding possible revision to the tests and reporting.

Additional Guidance for AOS Staff Only

- 18) You must report all exceptions we report (i.e. those exceeding \$10) in the Executive Summary.

- 19) Legal consultations:

- Applicability to the Sunshine laws in Ohio Compliance Supplement 2-23 and StaRS Best Practices for this entity type should be determined through review of the Legal Matrix (Exhibits 5 and 6, Including Exhibit 5 Footnotes 42-46) and possible subsequent consult with the AOS Legal division.
- If you report any noncompliance, you must submit your AUP draft to the Legal Division if the following are reported: (See AOSAM 45300.22)

CFAE consultations:

Submit to **AUP Spiceworks Specialty:**

- If it is a "customized" AUP for which no example shell exists, you must obtain approval prior to commencing the procedures from the CFAE AUP specialist.
- If auditors identify unsupported credit card transactions or purchases not for a public purpose during this testing step they must consult with the AUP Specialty in Spiceworks to determine if expanded procedures are necessary.

Submit to **your regional CFAE consultant**, using the same procedures as for a financial statement audit if you report: (See AOSAM 40000.4)

- potential or actual fraud
- potential finding for recovery
- potential finding for adjustment (FFA) significant enough that had we performed an audit the FFA would have been reported in the GAGAS report.
- Noncompliance significant enough to jeopardize the entity's ability to provide its basic services (which we expect to occur very infrequently).

- 20) AT-C Section 105A.10 defines an External Specialist as an individual or organization, outside of the practitioner's firm and/or the practitioner's firm network, possessing expertise in a field other than accounting or attestation, whose work in that field is used by the practitioner to assist the practitioner in obtaining evidence for the service being provided. The use of an External Specialist for an AUP would be rare. (i.e. Medical Billing Company) Auditors should determine if the use of an External Specialist is needed prior to beginning the AUP. If an External Specialist is needed, please consult the AUP Spiceworks Specialty. This will need to be approved and must be included in the Engagement Letter and agreed to by all Specified Parties. Should auditors determine an External Specialist must be brought in after the start of the AUP, they must consult with the AUP Spiceworks Specialty. We will need to revise the engagement letter and obtain agreement from the Specified Parties.