

Additional AUP Guidance

- 1) Attestation standards for AUPs 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. For example, IPAs **should** contact the regional AOS chief auditor.
- 3) **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.** 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. Post “Audit” 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 AOS briefcase, and 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.
- 5) The references to the Ohio Compliance Supplement (OCS) throughout the AUP are for your use. Do not include these references in the AUP report.
- 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 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 scanned the check register and noted 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.”

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- 8) All footnotes in the example AUP reports are explanatory guidance for practitioners. The actual reports should not include footnotes.
- 9) Bulletin 2009-012 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). 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.
- Therefore, AOS staff and IPAs should complete the current eligibility checklist to document the government's continuing eligibility for AUP for the second cycle.
 - 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.
 - Some of the criteria in question 5 and 7 from the checklist relate to the results of an *audit*, such as whether:
 - The opinion was qualified
 - The entity was declared unauditible
 - 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 testing records related to the AUP, or note 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) Whenever an exception is noted in an AUP step:
- 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).** Remember, 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 a FFA (whether the FFA language is used or not).
 - Remember 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 note whether the client posted the correction to their ledgers.
 - IPA should report FFA, but should not use the phrase "In accordance with the foregoing facts, we hereby issue a finding for adjustment. . ." See OCS Implementation Guide.
 - If we did not test all transactions (such as when we test ten non-payroll disbursements), add the following language to the exception: "However, because we did not test all non-payroll disbursements *[modify account caption as needed]*, our report provides no assurance regarding whether or not other similar errors occurred."
 - Normally do not write full "audit report type" comments for the errors – just note in one or two sentences exactly what was found (except for trustee salary citations).
 - For example – GAGAS defines the elements of a finding to include: Criteria, Condition, Cause, & Effect. Normally errors noted in AUP's can just document the condition (error that exists), (the criteria is already stated in the step).
- 11) When an AUP has exceptions in it, 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 such, if you find that they are still occurring, you report accordingly.
- 12) If we report an exception for estimated receipts or appropriations not agreeing to the budgeted amounts input to the system, you must modify any other affected budgetary steps. For example, in the Township shell, when comparing expenditures to appropriations, slightly modify the step to indicate that you compared "expenditures, as recorded in the Appropriation Status Report, to total Board approved appropriations". You should not compare expenditures to the incorrect appropriation amount on the Appropriation Status Report.

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- 13) Auditors need not test revenue types that are less than 10% of all funds' receipts; and are not required to test disbursements types (i.e. payroll or non-payroll) that are less than 10% of all funds' disbursements – however, **debt steps 1 & 2 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 test, (normally Payroll step 3) revise the paragraph before the table to state “We scanned 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 noted 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 June be difficult to establish, and alterations June be difficult to detect. The auditor June 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:
- o A client-prepared document is not a confirmation, and is not sufficient evidence to satisfy the *occurrence* or *accuracy* assertions.
 - o 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.
 - o 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.
 - o 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 test exactly what is listed in the AUP report. However, an exception to this is listed in AT 201.40, 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 AOS/CFAE approval.
- a. If you encounter matters you believe are significantly contradictory, please consult with AOS/CFAE regarding possible revision to the tests and reporting.

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- 18) As noted in Audit Bulletin 2015—001, ORC Section 117.114 allows the Auditor of State to waive only one requirement. Also, waivers will rarely be granted for the following steps on the Eligibility checklist for Agreed-Upon Procedures:
- a) Step 3 which requires a financial audit be performed within the prior two audit cycles. The only exceptions to this requirement are CVB's, political parties and landfills AOS Bulletin 2009-001 allows CVBs to have an AUP regardless of when the last audit was completed.
 - b) Step 4 , If an entity is required to report GAAP they will not be eligible for an AUP; however, if the entity voluntary prepares GAAP statements, like most water and sewer districts, they may be eligible
 - c) Step 5 - If other than an unmodified opinion was issued in the prior year or theft in office occurred,
 - d) Step 7 - If a special investigation is being conducted, or the entity has been declared in fiscal emergency or "unauditable"
 - e) Step 8 - Entity is required have an audit under A-133, a debt covenant, by-laws, or other law/contract.

Additional Guidance for AOS Staff Only

~~18) The AUP Control Sheet steps have been built into Teammate. However, per AOSAM 45400 footnote 3 "Generally, audits of periods 12/31/10 or later will be performed in TeamMate. However, some very small projects June be performed without the use of TeamMate (e.g. CIC's, Political Parties, etc.)" If you choose to exercise this option, you must pull the updated AUP procedures from TeamMate to use in your non-Teammate AUP engagement.~~

- ~~a. To do this, open TeamStore AUP from the production tab. Click on reports and select the AOS-FINANCIAL Procedures Report—choose all procedures and save as external word document.~~

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

20) If you report any noncompliance, you must submit your AUP draft to the Legal Division if the following are reported: (See AOSAM 45300.22)

- 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.

21) If you report:

- Potential or actual fraud
- Potential findings for recovery
- Potential findings 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),

You must submit your AUP draft to your regional CFAE consultant and receive their approval, using the same procedures as for a financial statement audit.

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.

22) The 2011 Yellow Book removed the requirement to request Official's Responses. However, if the client chooses to respond anyway, we will follow the guidance in AOSAM 38100.44 and apply it to AUP's.