

Auditee Resource Center Practice Aid

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Procuring Governmental Audit Services

Introduction

This practice aid was prepared by the AICPA's Governmental Audit Quality Center (GAQC) and is intended for the various stakeholders involved in the audit procurement process for states, local governments, not-for-profit organizations (NPOs), or certain for-profit organizations that receive federal or state assistance. It provides useful information in navigating through the various steps involved in the procurement of audit services and covers steps including planning the procurement, developing the Request for Proposal (RFP), evaluating proposals received, and monitoring the audit.

The primary purpose of the GAQC is to promote the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. Appropriate consideration of the audit procurement process is a key aspect of helping to ensure a quality audit.

Why Audit Quality is Important to Audit Purchasers

If you are associated with the audit procurement process, you likely already know about the reliance that the public and other stakeholders place on your organization and its activities. Therefore, you have a vital fiduciary responsibility to ensure that your audit is of the highest quality. Independent audits of organizations like yours, including financial statement audits and compliance audits of federal or state expenditures, are an important accountability mechanism. These audits provide a form of assurance to your management, those charged with governance, regulators, and other stakeholders (e.g., bondholders). Quality financial statement and compliance audits can help you:

- Fulfill your fiduciary responsibility;
- Obtain assurance related to the financial integrity of funded programs;
- Identify possible noncompliance and other issues early to avoid interruption of current funding;
- Lower the risk of future noncompliance; and
- Strengthen your ability to secure additional funding in the future.

How to Use This Document

The guidance provided in this document details the various steps involved in the procurement of audit services. Reviewing this guidance will help ensure that your procurement process runs more smoothly and that the outcome of the process will be the hiring of an auditor that has the appropriate qualifications. The guidance included is generic and should be used for reference purposes only. It is not all-inclusive and

depends on the particular circumstances of your organization. The best approach to using this document is to have those involved in the procurement process read it, and then collectively customize the steps in the document and make sure the selection process meets your organization's specific needs. You should also ensure you obtain and read other guidance that is available to help you with the audit procurement process. The "Other Resources" section at the end of the document summarizes resources that you may wish to consider.

Procurement Steps

1. **Planning for Procuring Audit Services:** Careful planning for the procurement process helps ensure that audit objectives will be met in accordance with applicable laws, regulations, and contractual agreements. It will also help ensure a quality audit. In planning for procuring audit services, consider each of the following items. Each item is followed by additional information and/or questions for your consideration:
 - a. *Applicable federal, state, local and contractual audit procurement requirements and internal policies.* Are there any special procurement requirements that your organization is subject to? If so, be sure to consider these and incorporate them into the procurement process. For example, if your organization expends federal funds and is subject to an audit referred to as a "single audit" under Office of Management and Budget (OMB) requirements, you are likely subject to specific compliance requirements relating to procurement.
 - b. *Defining the entity to be audited.* Will the entire organization be covered under the audit? Or, alternatively, will only a portion of the organization be covered (e.g., a primary government, a component unit, a department or a fund of a government, a subsidiary of an NPO, etc.). Be sure to keep in mind generally accepted accounting principles (GAAP) requirements and any pertinent legal requirements.
 - c. *Delineating the scope of the financial statement audit.* Will the audit include the basic financial statements only or will it also include other financial statements such as individual funds for a government or a subsidiary of an NPO? Will required supplementary information (RSI) or supplementary information (either required by GAAP or provided voluntarily) be presented that will require the auditor to perform additional procedures?
 - d. *Determining the specific audit requirements.* Are there specific laws or regulations that apply to your organization that impose certain audit requirements (e.g., the Single Audit Act, a state law, etc.)? Additionally, is your organization subject to contractual provisions that impose audit requirements (e.g., through debt provisions)? Are there other professional

- services that might be required that can be procured jointly with financial statement and single audit services, such as reports on compliance with policies (e.g., investment guidelines) or agreed-upon procedures required by lenders, bond covenants, or contracts?
- e. *Determining the relevant auditing standards.* Generally, the financial statement audit for governments, NPOs and non-public for-profit organizations are performed under auditing standards issued by the AICPA. For-profit public companies are likely subject to the auditing standards of the Public Company Accounting Oversight Board (PCAOB). You may also be required by law, regulation, or contract (e.g., by the Single Audit Act, by a state law, contracting agency requirement, etc.) to have your financial statement audit performed under *Government Auditing Standards* issued by the Comptroller General of the United States (also referred to as the Yellow Book).
 - f. *Determining whether single audit requirements or another federal compliance audit requirement applies to your organization.* Has your state, local government or NPO expended federal awards over the threshold for a single audit? If so, a single audit will be required, in addition to your financial statement audit. If you are a for-profit organization, have you contractually agreed to have an audit performed in accordance with a federal compliance audit requirement and/or federal audit guide? [Access a GAQC compilation of various audit requirements for for-profit organizations.](#)
 - g. *Determining whether state compliance requirements apply to your organization.* Does the state impose any additional compliance audit requirements (e.g., State “single audit” requirements) that your organization would be subject to?
 - h. *Identifying the attributes necessary in an auditor.* What attributes will you be requiring of your auditor? Consider the following questions in making this determination: (1) Does the auditor have experience with entities similar to yours? (2) Does the auditor have experience with performing the type of audit that your organization needs (e.g., under *Government Auditing Standards*, single audit requirements, or a specific federal audit guide). (3) Does it appear that the auditor is committed to quality (e.g., participation in the peer review process, participation in other quality control programs like the AICPA’s GAQC, etc.)? (4) Are the auditor and firm licensed and independent?
 - i. *Determine whether there are any additional services which will be required?* Examples of additional services include financial statement preparation, bookkeeping, cash to accrual conversion, or Form 990 preparation among others. Professional standards require that CPAs performing these nonaudit

- services meet certain independence requirements before beginning the audit engagement.
- j. *Establishing an auditor selection process.* What factors and degree of importance of those factors will you consider when you evaluate potential auditors? The technical expertise of the auditor and the auditor's commitment to quality should be considered as strong factors.
 - k. *Determining the audit engagement term.* Will a one-year term or multi-year term work better for your organization? One factor to consider in determining the term is that the first year of an audit usually involves significant start-up costs as auditors devote considerable time to learning about the organization and its internal control. Using this groundwork, the auditor may be able to perform the audit in less time and at less cost in the succeeding years. If your organization has policies that define the term of an audit contract, be careful to structure the terms of the RFP to match.
 - l. *Determining how you can assist the auditor in the performance of their audit.* Does your organization have the capacity to use resources from your internal audit or accounting staff to assist the auditor?
 - m. *Establishing a work schedule.* Have you determined dates for certain audit process milestones to be accomplished? Determination of such milestones or deadlines will help ensure the timely preparation and issuance of financial statements and related audit reports. Firm deadlines for issuance of audited financial statements and reports, such as those imposed by law or bond indentures should be considered. Additionally, other key dates should also be established for such areas as entrance conferences, pre-fieldwork planning conferences, end of on-site fieldwork conferences, and exit conferences. You should consider imposing consequences for missed deadlines.
2. **Develop RFP and Obtain Proposals from Potential Auditors:** Encouraging as many qualified auditors as possible to submit a proposal for auditing your organization increases the likelihood that you will receive a quality audit at a fair price. You may want to consider compiling a list of potential auditors from general and professional directories and from your past experiences. One source is the membership section of the AICPA's GAQC Web site (www.aicpa.org/GAQC) which includes a listing of its members ([sorted by organization name and also by state](#)) that perform single audits or audits under *Government Auditing Standards*. Some state CPA societies also include listings of auditors that practice in certain specialized industries. You may use many means to solicit proposals for audit services; however, the RFP is a reliable and efficient method. A well written and detailed RFP will help ensure your organization receives proposals that meet your

needs, terms, and conditions. A quality RFP plays a large role in ensuring the hiring of a quality auditor.

- a. Consult with Others in Developing the RFP. Consider consulting with others in your organization or industry when developing your RFP to ensure that everything necessary has been addressed. For example, you could consult with your audit committee (if applicable), legal advisers, accountants, internal auditors, procurement officers, and any other technical resources on staff. It is also helpful to check with trusted peers who have recently gone through the RFP process. These similar entities may have great input and detailed RFP examples that can be utilized to develop a very effective RFP and help your organization avoid common RFP pitfalls and mistakes.
 - b. What to include in your RFP? The purpose of an RFP is to provide potential auditors with enough information to develop proposals that address all of your organization's audit needs and concerns. The AICPA has developed, as part of its [Audit Committee Toolkits](#) for [governments](#), [NPOs](#), [private companies](#), and [public companies](#), tools for ensuring that an organization's RFP is complete and contains the necessary elements for the successful procurement of auditing services. Each of these toolkits, which can be purchased from the AICPA, includes either an RFP preparation checklist or a sample RFP. In addition to the guidance provided in these tools, the GAQC recommends that you also consider asking potential auditors to disclose the quality improvement programs that they participate in (e.g., membership in the GAQC) in the RFP.
 - c. Consider the Necessity of a Proposers' Conference. As a best practice, you should consider inviting prospective auditors to a proposers' conference to provide an opportunity for your organization to disseminate more information and for proposers to ask questions. This is also an opportunity to explain unique circumstances, rules, or operations, and to emphasize important points, such as the importance placed on timeliness and auditor staff continuity. Consider making the meeting mandatory to ensure that all prospective auditors hear explanations and answers to other's questions, and can meet the key people they would be working with if they are selected. If attendance at the meeting is not mandatory, make sure you provide a mechanism for information sharing to all proposers that are unable to attend the proposer's conference (e.g., disseminate all questions asked and the associated answers, explain additional guidelines discussed, etc.)
3. **Evaluation of Proposals Received:** It is recommended that an Evaluation Committee (see below) perform separate evaluations of the proposals based on technical criteria and price.

A properly defined evaluation process promotes consistency and fairness in the selection process. After the due date for proposal submission has passed, your organization can begin the technical evaluation. The technical evaluation is important for two reasons. First, it provides a systematic framework for selecting an auditor based on the requirements contained in the RFP. Second, it documents the selection process and helps ensure a fair selection. The review of the auditor's proposals and qualifications in response to the RFP should be thorough, uniform, and well documented. Consider using your audit committee or, if there is no audit committee, selecting a committee or Board to perform the evaluations (hereinafter referred to as Evaluation Committee). Also consider the following:

- a. Role of Evaluation Committee. This group should include individuals with appropriate technical skills (e.g., a background in accounting, auditing, budgeting, procurement laws, and other specialty experiences). Members should not have any conflicts of interest with the prospective proposers under review such as a family relationship, close friendship, previous employer or current business relationship.
- b. Requiring Minimum Standards. Using minimum standards is an effective and efficient tool to limit the number of proposals the Evaluation Committee has to review. Therefore, your organization should consider establishing a process to screen prospective proposals. If certain proposers do not possess the minimum standards, they should not be evaluated by the Evaluation Committee (unless the Evaluation Committee requests to see them for some reason as they go through the selection process). The following are some minimum standards you should consider in the screening process:
 - 1) The responsiveness of the proposal to the RFP.
 - 2) The auditor meets appropriate state licensing requirements.
 - 3) The auditor meets applicable independence requirements, especially if they are performing any nonaudit services such as financial statement preparation.
 - 4) The auditor has a record of responsible work.
 - 5) The auditor is in compliance with applicable peer review and continuing professional education (CPE) requirements.
 - 6) The auditor meets other minimum standards set forth in the RFP, such as those pertaining to the auditor's financial condition, adequacy of staffing, and experience auditing similar organizations.
- c. Technical Criteria. The required technical criteria were developed during the "Planning for Procuring Audit Services" step above. They were described in the RFP and should be used in the evaluation process.

However, at a minimum, the Evaluation Committee should be able to answer “yes” to the following questions about the contents of the proposals:

- 1) Does it demonstrate an understanding of the requirements (your organization’s needs) and the product to be delivered?
- 2) Does it have a sound technical plan and workable timetables?
- 3) Does it have satisfactory start and end dates for audit?
- 4) Does it have a practical approach to meeting benchmarks and deadlines?
- 5) Does it provide a description of the approach for planning the audit, conducting and timing of the fieldwork and the proper opportunity for your organization to review the reporting products before their issuance (including subsequent years for multiyear contracts)?
- 6) To avoid a duplication of efforts, does it indicate a willingness to use work from other auditors (i.e., internal and external) to the extent possible?
- 7) Does it demonstrate the auditor has experience with performing the required audit work for an organization similar to yours in both type and size, including any less-common aspects of your operations requiring specialized expertise (e.g., public utility experience)?
- 8) Does it demonstrate, if applicable, the auditor’s experience with performing audits under *Government Auditing Standards*, single audit requirements, other applicable federal compliance requirements, and/or federal audit guides?
- 9) Does it describe the auditor’s participation in quality improvement programs (e.g., membership in the AICPA GAQC)?
- 10) Does it contain references from prior or current clients that are similar to your organization?
- 11) Does it identify and demonstrate the individual and collective experience of the audit team and its leaders?
- 12) Does it clearly state the experience and qualifications of key personnel (e.g., specific audit engagements, areas of specialization, CPE, etc.)?
- 13) Does it address whether key personnel identified in the proposal will be adequately involved and accessible throughout the performance of the audit?

- 14) Does it state that your organization will be notified and consulted if key personnel changes are made?
- 15) Does it contain the auditor's latest peer review report and letter of response (if applicable)?
- d. Considering the Price. It is recommended that the Evaluation Committee perform separate evaluations of the proposals based on technical criteria and price. While the price for the work to be performed is a factor in the selection process, your organization is more likely to get the best combination of a high quality audit and at a fair price by independently evaluating technical ability and price.
- e. Rating the proposals. The review of an auditor's proposal should be thorough, uniform, and well documented. In order to objectively evaluate proposers, you should develop an objective scoring system for the technical abilities of each auditor as presented in their proposal. The Evaluation Committee should review the information contained in the proposals as submitted listing the strengths and weaknesses for the technical requirements and ensuring that the proposal meets minimum requirements. Any minimum requirements not met should be documented. After the technical evaluation is complete, the Committee should review the prices offered by the proposers. Consider the best technical proposals for your organization along with price and be prepared to select a proposal based on criteria other than price. You should consider determining the "percentage weighting" of technical ability versus price in advance of the actual rating process.
- f. Oral Interviews. After evaluating the written proposals, the Evaluation Committee may want to interview a few of the highest rated auditors to obtain additional explanation regarding their proposals or to learn more about them prior to making a contracting decision. Be sure not to discuss or reveal proprietary information submitted by other proposers during this process.
4. **Documenting the Agreement:** A signed written agreement represents a contract and is binding upon your organization and the auditor. This is often referred to as the engagement letter. For that reason, when reviewing the agreement, you should consider seeking the advice of your purchasing office or legal counsel on the agreement's form and substance. The RFP itself should indicate that a signed written agreement is required from the auditor that is selected. It is not unusual for the auditor to request amendment or clarifications of certain provisions. The agreement should include details concerning requirements and proposed audit work. At a minimum your written agreement should contain the following:
- Names and parties to the contract

- Audit scope, objective, and purpose
- Audit schedule and deadlines for work to be performed
- Audit cost
- Reporting package and its format
- Type and timing of audit evidence to be provided by the auditee
- Professional standards to be followed for the audit
- Detailed listing of audit staff that were evaluated in the proposal process and stated to be assigned to the engagement. If there are staff changes, you should consider asking that staff changes be communicated by the auditor in writing; and
- Management's responsibilities

Also, ensure that you consider including the following points about the auditor/auditee relationship, changes in the type and quantity of work required, and access and ownership of audit products:

- A statement that the auditor is an independent contractor.
- A statement that the auditee has the right, by written notice, to make changes or additions to the work within the general scope of the agreement. Also, a statement that in this case, an equitable adjustment to the price of the audit will be made using specified rates.
- A description of situations in which the auditor does not agree with changes and additions in work to be performed and how the auditor is to communicate this to the auditee. For example, disagreements should be in writing and within a specified time period. Also, you should include the process for final dispute resolution.
- A statement that the auditor owns its audit documentation and a specified period for which that documentation must be retained by the auditor (note that single audit requirements require a minimum 3-year retention of audit documentation and there may be other applicable laws and regulations with retention requirements that your organization is subject to).
- A statement that addresses access to audit documentation and photocopies that may need to be provided to regulatory reviewers such as, federal inspector generals, state auditors, etc.
- Statements that the audit reports rendered to the entity by the auditor are the exclusive property of the auditee for use subject to applicable laws and regulations.

- Consider adding language for one or more of the following:
 - Possible need to negotiate additional compensation for additional work – such as when new accounting and auditing standards greatly increase workload, or when there is a material increase in the number of “major programs” subject to single audit requirements.
 - Hourly rates for special work requested by the entity (which does not pose an independence impairment for auditor).
 - Compensation for work with successor auditors after conclusion of contract term, or if terminated early for any reason.
 - Compensation for work by auditor related to requests by federal agencies.
 - Freedom of Information Action (FOIA) requests and whether auditor working papers are exempt.
 - Rights of either or both parties to terminate prior to conclusion of term.
 - Be aware that certain “standard” terms and conditions often used in government contracts may be problematic for an auditor to agree to. For example, some government contracts inappropriately include indemnification clauses. Professional standards for CPAs do not allow the auditor to indemnify their clients. Governments sometimes also inappropriately include standard clauses relating to the ownership by the government of the work product. CPAs are required by regulators to make their working papers available but the audit firm retains ownership of the working papers.
 - Be aware that standard consulting agreements are not designed as audit agreements and these standard agreements can cause issues such as those addressed in the bullet above.
5. **Audit Monitoring:** While the responsibility for performing a quality audit rests ultimately with your auditor, monitoring the audit and the work being performed helps ensure a timely and quality audit. The best group to monitor the auditor is the audit committee. If your organization does not have an audit committee, consider forming a group of individuals that have authority, as well as financial and organizational experience and knowledge, to monitor audit quality and progress. Timely and active monitoring ensures that: (1) problems are addressed and resolved early; (2) the auditor and auditee working relationship will be enhanced; and (3) any surprises are uncovered early and not at the conclusion of audit. Monitoring is especially important during the first year of a new auditor and during the audit of a particular

unit or segment of an organization that is unique or complex. Monitoring can include regular progress reports and regularly scheduled meetings. (NOTE: Make sure these regular progress reports and regular scheduled meetings are adequately explained and requested in the RFP.) It is most important to ensure that feedback on auditor performance is provided regularly and after the engagement to allow for any adjustments to subsequent audits. Finally, ensure that you communicate with the auditor after the completion of the audit and before the issuance of the final report(s) to avoid surprises and improve understanding.

Other Resources

You may want to consider reviewing past RFPs and contracts from your organization as you go through the audit procurement process. Various federal and state agencies may also have sample RFPs and other procurement guidance available. The Internet may also be a tool to help you gather information, formats, and procurement regulations. Below are some Web sites that you may want to consider:

- [AICPA Audit Committee Toolkits](#)
- Various federal and state agency Web sites
- Your own network of peers who have been through the RFP process