

## AUP Additional Guidance<sup>1</sup>

- 1) Attestation standards for AUP performed under AT-C 215 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 items two and three below ), 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). FFRs should be included in the relevant procedure where identified and should closely follow the example format in the Ohio Compliance Supplement Implementation Guide. However in most cases we should refrain from using the word audit as it usually would not apply to this engagement type. 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 on the intranet ~~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 AUPs.
- 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.
  - a. Note: Staff should be certain of the source of the information provided by the client. For example, if an UAN client has an IPA firm manually compile the information for the financial statements filed in the Hinkle System

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<sup>1</sup> Updated January 2024– Significant changes are marked. Additions are double underlined, and deletions are in strikeout font.

(rather than using the UAN reports) and the client provides that manually compiled information to auditors for the AUP procedures testing, that information would be considered developed from a manual system rather than an automated system.

- 5) 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”.
- 6) 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 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.”
- 7) AOS permits eligible governments to substitute an AUP for a regular GAGAS audit. If eligible, a maximum of three AUPs may be performed in lieu of a GAGAS audit and then the government must have a full GAGAS audit. There is no such cycling requirement for basic audit services (CVBs are permitted to have AUPs regardless of when the last audit was performed, see #8). If any of the AUP reports include exceptions that would make them ineligible for the reduced AUP services, then a full GAGAS audit would be required. AOS permits eligible governments to substitute an AUP for three AUP cycles (except CVBs which are permitted to have AUPs regardless of when the last audit was performed, see #8). However, if the first or second AUP report includes exceptions that would make them ineligible for AUP, the entity will be ineligible for AUP in the second or third cycle.
  - a) AOS staff and IPAs should complete the current eligibility checklist to document the government’s continuing eligibility for an AUP for the third cycle.
  - b) We suggest completing as much of this checklist as possible upon completing the ~~first or second~~ AUP, to determine as soon as practical whether the subsequent engagement should budget for a full GAGAS audit, AUP, or Basic Audit, or for AUP.
  - c) Some of the criteria in questions 5 and 7 from the checklist relate to the results of an the prior Basic Audit, AUP, or Full GAGAS Audit, such as whether:
    - 1) The opinion was modified
    - 2) The entity was declared unauditabile
    - 3) A control deficiency was material.

We recognize that Basic Audit and AUP results do not provide sufficient evidence to fully answer these questions. Nevertheless, if (for example) ~~you have~~ auditors in the previous engagement had significant difficulty in obtaining or inspecting records related to the Basic Audit or AUP, or find a significant number of exceptions in the AUP, or find a significant number of current year observations in the Basic Audits, please discuss with the AOS regional chief auditor whether these issues suggest the entity should not be eligible for a Basic Audit or 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.

- 8) Generally, CVBs are automatically eligible for an AUP without having to fill out an AUP checklist (See b. below.) CVBs are eligible for a Basic Audit if they meet the requirements on the Basic audit checklist.
  - a) 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.

- b) It is possible that Basic Audits and 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.
- c) The fraud inquiries from the Basic Audit or AUP checklists are required to be asked for CVBs as well.

9) 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, FFAs which **have** been posted are not called "FFAs" 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 fund's 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. IPAs 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) Auditors should not write full GAGAS "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) .

AT-C 215.A36 defines findings (exceptions) to be factual results of procedures performed that are capable of being objectively verified and objectively described, which means that procedures to be applied to the subject matter are expected to result in reasonably consistent findings. It specifically addresses the fact that findings exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make. Therefore, auditors should take due care to ensure their findings represent factual results of the procedures and **do not include opinions, conclusions, or recommendations.**

10) 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.

11) Auditors need not perform procedures on:

- a) Revenue types that are less than 10% of all funds' receipts; and
- b) Disbursements types (i.e. non-payroll) that are less than 10% of all funds' disbursements

However, testing is always required for:

- a) **Debt steps 1 & 2**
- b) **Identified payroll steps for Townships (For Townships, if payroll expenditures were less than 10% of the total of all funds disbursement, then only the applicable trustee/fiscal officer compensation procedures are required (procedures 4 & 5, & 6)**

The calculation for total receipts or disbursements should be assessed for each individual fund type category

~~financial statement~~ annually (e.g. governmental, fiduciary, and proprietary) See GASB 1300.102. (For determination of testing of intergovernmental revenue, real estate taxes, income taxes, other confirmable receipts, and EMS where applicable, total receipts should be calculated based on all receipts minus other financing sources by fund type category annually.)

Whenever a step or section is removed from the shell, document the reason for removing it, and include it in the AUP documentation.

- 12) 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”).
- 13) When the AUP shell for your entity does not include the procedures for specific receipt, expenditure, compliance, etc. testing pertaining to your specific entity such as charges for services for utilities or billing systems, refer to the other entity type shells for example the Village Shell and pull in any necessary procedures. Consult with CFAE AUP Specialty where necessary.
- 14) 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:”
- 15) When a service organization is involved, the procedures need to be modified. The modified procedures may exist in another shell. Consult with CFAE AUP Specialty where necessary.
- 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.

While AU-C 505 is part of the financial audit and not the attestation standards, it is still good guidance for AUPs.

Therefore:

- A client-prepared document is not a confirmation (and is not sufficient evidence to satisfy the *occurrence* or *accuracy* assertions for financial audits).
- 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 215.40, which states the practitioner need not perform procedures beyond the procedures agreed to and acknowledged by the engaging party to be appropriate for the intended purpose of the engagement. However, in connection with the application of the procedures and through the completion of the engagement, if matters come to the practitioner's attention by other means **that significantly contradict the subject matter** referred to in the practitioner's report, the practitioner should discuss with the engaging party and take appropriate action, including determining whether the practitioner's report should be revised to disclose the matter. Fundamental modifications to the steps listed in the AUP shells require CFAE 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.

- 18) If the AUP subject matter (i.e. Landfills and MHAs) is information from audited financial statements, the AUP report date should **NOT** be dated before the financial statement audit report date.

### **Additional Guidance for AOS Staff Only**

- 19) You must report all exceptions we report (i.e. those exceeding \$10) in the Executive Summary.
- 20) Legal consultations:
- Applicability to the Sunshine laws in Ohio Compliance Supplement 2B-8 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 related to the items listed in AOSAM 41300.43, you must submit your AUP draft to the Legal Division. ~~if the following are reported: (See AOSAM 41300.43)~~

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 procedure modifications to an existing AUP Report shell are extensive
- If approval of AUP Checklist is necessary based on guidance in the AUP Checklist and AUP CA/ACA Waiver Guidance documents.
- If auditors need dissolution procedures for a Financial Audit, AUP, or Basic Audit

Submit to **your regional CFAE consultant**, if you report: (See AOSAM 41300.43)

- 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).
- If auditors identify purchases not for a public purpose during the testing step, they must consult with the

regional CFAE consultant in Spiceworks to determine if expanded procedures are necessary.

- 21) AT-C Section 105.12 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. 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 by the engaging party and included in the Engagement Letter and Representation Letter. For AOS audits, where applicable, engaging parties will confirm in the Representation Letter that they have obtained from other necessary parties their agreement to the procedures and acknowledgement that the procedures performed are appropriate for their intended purposes. Should auditors determine an External Specialist must be brought in after the start of the AUP, they must consult with the AUP Spiceworks Specialty.