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From: Robert Hinkle, Chief Deputy Auditor  
To: All IPA Firms  
Subject: Procedures for Reporting Abuse in Audit Reports  
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The Comptroller General of the United States' *Government Auditing Standards*, commonly referred to as Generally Accepted *Government Auditing Standards* (GAGAS), indicate that "abuse" involves behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

While this standard is not new and has not changed, this ADAM provides implementation guidance to AOS auditors and IPAs about reporting abuse in their audits. The standard does not require auditors to detect abuse in financial audits. Therefore, it is not necessary to add additional audit procedures solely to detect abuse. However, as part of the GAGAS audit, if auditors become aware of abuse that could be quantitatively or **qualitatively** material to the financial statements or other financial data significant to the audit objectives, auditors should apply procedures specifically designed to ascertain the potential effect on the financial statements or other financial data significant to audit objectives.

Auditors should read Chapter 4 of the Comptroller General of the United States' *Government Auditing Standards* on abuse. AOS auditors should also refer to the Auditor of State Audit Manual Section 30600 for additional guidance concerning the abuse standards.

#### ***Policies for Reporting Findings of Abuse for AOS Auditors***

If the auditor preliminarily determines to issue a finding for abuse, the auditor should draft the proposed finding and send it, along with all factual information pertinent to the proposed finding, to the Legal Division and Center for Audit Excellence (CFAE) for review. The Legal Division will review the proposed finding in the Legal Consultation program folder of the applicable TeamMate project. Likewise, the CFAE will review the proposed finding in the CFAE Consultation program folder of the applicable TeamMate project. Due to the nature of these findings, these divisions will consult with the Chief Legal Counsel and Chief Deputy Auditor, or their designees, as needed and may request additional information from the auditors to support the abuse finding. When both the Legal Department and the CFAE have approved the finding for abuse, it must then be sent to the Chief Deputy Auditor, or his designee, for final approval.

When the Chief Deputy Auditor has given final approval to move forward with the finding for abuse, the auditor should immediately prepare and send a Notice of Proposed Finding for Abuse to the Legal Division for review and approval (a sample is provided on the second following page). This notice provides the person(s) against whom the finding is contemplated an

opportunity to rebut the allegations. The notice must include the language of the abuse finding from the report and must be factually specific and detailed enough to allow the person(s) to understand the allegations made against them.

The notice also must state that the individual(s) has five business days in which to respond in writing to the proposed abuse finding. That five-day period may be extended in rare circumstances, but only upon approval of the Auditor of State, the Chief Deputy Auditor, the regional Chief Auditor (or equivalent), or the Legal Division. The notice should be sent to the individual(s) sufficiently in advance of any post-audit or exit conference so that he or she has time to respond and so that the Auditor of State's Office has time to withdraw or modify the finding before that conference, if necessary.

If the person(s) against whom the finding is contemplated responds within the time allowed with something other than a general denial of responsibility, the response should be evaluated by the Chief Auditor. If the Chief Auditor believes the response has merit, the Chief Auditor should submit it to the Legal Division and CFAE for consideration. If after the evaluation, the decision is made to delete the proposed abuse finding from the draft report, the person(s) to whom the finding of abuse was against and the Chief Auditor should be notified of that decision. If the decision is made to retain the finding, the individual(s) should be notified of the opportunity to attend the exit conference or to schedule a separate meeting to discuss the finding.

#### ***Issuing Findings of Abuse Before and/or After the Audit Period***

Audit engagements are for specified time periods as reflected in the auditor's letter of engagement. The great majority of findings are therefore based on transactions that have occurred within the period that is currently under audit. Extenuating circumstances may arise which lead auditors to test before and / or after the audit period; however, this is not standard practice.

Since there are numerous variables affecting this determination that will be unique to each finding of abuse, the regional Chief Auditor should consult with the Chief Deputy Auditor or his designee prior to testing outside of the audit period to pursue a finding of abuse.

#### ***Policies for Reporting Findings of Abuse for IPAs***

Independent Public Accountants (IPAs) must also provide a written notification of potential abuse that provides the person(s) against whom the finding is contemplated an opportunity to rebut the allegations. The notice must include the language of the abuse finding from the report and must be factually specific and detailed enough to allow the person(s) to understand the allegations made against them. The notice should be sent to the individual(s) sufficiently in advance of any post-audit or exit conference so that he or she has time to respond. IPAs are responsible for determining their own processes for evaluating responses and reporting abuse. IPAs must notify the Regional Office when a potential abuse issue is identified and then again, whether or not the abuse comment will be issued in the audit report.

If you have any questions regarding the information in this Advisory Memo, please contact the CFAE staff.