

STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT
AMENDMENT NO. 4

“Post Audit of the Office of the State Auditor”
Request for Proposals OFM No. 10-700

OFM RFP No. 10-700 is amended to include the following bidder question and answer from the Office of Financial Management.

Question 1. Can a properly licensed CPA or CPA firm perform an “Agreed-Upon-Procedures” engagement at the request and direction of the State’s Office of Financial Management on specific accounting transaction within the accounting system of the Office of the State Auditor?

Answer 1. The answer is set forth in a State Board of Accountancy, Executive Director’s View dated October 21, 2009, which is attached hereto as Exhibit C and incorporated by reference.

ALL OTHER TERMS AND CONDITIONS OF OFM RFP NO. 10-700 AND AMENDMENTS NO. ONE, TWO AND THREE REMAIN IN FULL FORCE AND EFFECT.

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The analyses and conclusion included herein are the sole responsibility and conclusions of the Executive Director of the Washington State Board of Accountancy and may not, and do not, necessarily reflect the response or conclusions of the nine-member Board.

Furthermore, the analyses and conclusion expressed herein does not address whether such an engagement in fact or substance would constitute an "examination" and opinion on the internal controls over financial transactions within SAO's financial accounting system.

The question posed is whether a properly licensed CPA or CPA firm can perform an "Agreed-Upon Procedures" engagement at the request and direction of the State's Office of Financial Management (OFM) on specific accounting transactions within the accounting system of the State Auditors' Office (SAO.).

Executive Director's Conclusion and Overview:

These conclusions assume that GAGAS will not be required by contract as I understand the RFP. Accordingly, only AICPA Attestation Standards, the AICPA Code of Professional Conduct, and Board guidance only are assumed to be specifically applicable:

Case #1- CPA is on the approved "convenience contract" list but has provided no personal services for SAO under any executed contract and none is contemplated during the period to be covered by the engagement. The CPA would clearly have had no influence on the subject matter of the engagement or the statutory requirement and procedures agreed to by OFM and SOA.

In this scenario, in my view, the issue is more a question of whether the CPA has a potential conflict that might be perceived by the public as impairing the CPA's objectivity. Under all relevant guidance, the potential conflict can be acceptable if the CPA believes personal objectivity can be maintained and the "convenience contract" listing is disclosed in writing and agreed to by all parties to the engagement.

I do believe independence would not be impaired provided the potential conflict was managed as described above.

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Case #2: CPA has performed services on a "convenience contract", including financial or performance audit services as an independent contractor for SAO but no contract has been executed for additional services during the period to be covered by the engagement.

Again, recognizing that the CPA has no influence on the subject matter of the engagement or the statutory requirement and procedures agreed to by OFM and SOA, any perceived conflict could be managed if the CPA believes personal objectivity can be maintained and the "convenience contract" services performed are disclosed in writing and agreed to by all parties to the engagement. In this case, reference to prior services in the final report might be prudent to avoid any public assertion that independence was impaired because of those prior services.

In this scenario, I have considered the threats and safeguards outlined in ET Sec. 100.01, Conceptual Framework for AICPA Independence Standards. I presume that the nature of the engagement would be sufficiently specific (as required by the attestation standards) to minimize the judgment required of the performing CPA.

Accordingly, I do believe independence would not be impaired provided:

- Contractual financial /performance audit services to SOA performed by independent contractors are subject to stringent quality control procedures to ensure that the contract services are acceptable to SAO thereby constituting adequate safeguards as outlined in ET Sec. 100.01; and
- The potential conflict was managed as described above.

Case #3: CPA has routinely performed or is performing services on a "convenience contract" under which the CPA is serving as a contract staff assistant on financial statement audits of state agencies and/or local governments.

This scenario does not include those situations in which the CPA is engaged by the state agency or local government to compile the subject matter of the audit which then would be subjected to audit by SAO personnel not including the CPA.

In my view, serving as a contract staff assistant constitutes any such person to be included within the definition of a covered member of an SAO engagement team. Furthermore, this places the contract staff assistant in an impossible situation creating an irresolvable threat to the person's integrity and objectivity.

I do believe independence both in fact and appearance would be impaired in this case.

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In the event that the engagement were conducted under GAGAS, the forging conclusions would, in my view, be valid, except that the report on the engagement should conform to **GAGAS Chapter 3, Sec. 3.04** (see **page 9** of this document).

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The question posed is whether a *properly licensed CPA or CPA firm, including a CPA qualified for practice privileges under Chapter 18.04 RCW (CPA)* can perform an "Agreed-Upon Procedures" engagement at the request and direction of the State's Office of Financial Management (OFM) on specific accounting transactions within the accounting system of the State Auditors' Office (SAO.) and be, or remain, independent under applicable provisions of the Public Accountancy Act in this state, applicable Board rules, and other professional standards.

Background information on Applicable standards and Board rules:

Board rule, WAC 4-25-631, subsections (4, (11), and (12) recognize the following standards as authoritative standards requiring compliance by a CPA that are viewed as applicable to the question:

- a) Statements on Standards for Attestation Engagements (**AT**) and related interpretations issued by the AICPA;
- b) The Professional Code of Conduct issued by the AICPA (**ET**), including related interpretations and ethics rulings; and
- c) Governmental Auditing Standards (**GAGAS**) issued by the U.S. Governmental Accountability Office.

However, **Board rule, WAC 4-25-620** provides further that CPAs must remain free of conflicts of interest unless such conflicts are specifically permitted by Board rule or applicable professional standards recognized by the Board (WAC 4-25-631, referenced above).

This Board rule further states that if recognized professional standards differ from or conflict with specific Board rules, **Board rules prevail.**).

In this context, the Executive Director notes that the question posed does not create a prohibited conflict of interest, if a conflict is deemed to exist (WAC 4-25-910(9)).

AICPA Code of Conduct re Integrity and Objectivity, Interpretation 102-2—Conflicts of interest.

A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a relationship with another person, entity, product, or service that could, in the member's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the member's objectivity. **If the member believes that the professional service can be performed with objectivity, and the relationship is disclosed to and consent is obtained from such**

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client, employer, or other appropriate parties, the rule shall not operate to prohibit the performance of the professional service.

AT Sec. 201.06 provides that an Agreed-Upon Procedures engagement may be performed by a practitioner provided that the practitioner is "independent" and the party wishing to engage the practitioner (OFM), although not responsible for the subject matter is able to provide the practitioner with evidence of the third party's responsibility for the subject matter (SAO), among other conditions.

AT Sec. 101.03 provides that "When a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules, and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards".

Analysis #1:

This analysis assumes that GAGAS will not be required by contract as I understand the RFP. Accordingly, only AICPA Attestation Standards, the AICPA Code of Professional Conduct, and Board guidance would be specifically applicable.

In that scenario, the **engaging party is OFM** and the **responsible party is SAO**.

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GAO Excerpts

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Chapter 1
Use and Application of GAGAS

1.20 GAGAS requirements apply to the types of audit and attestation engagements that may be performed under GAGAS as follows:

Financial audits: chapters 1 through 5 apply.

Attestation engagements: chapters 1 through 3 and 6 apply.

Performance audits: chapters 1 through 3 and 7 and 8 apply.

1.21 Appendix I includes supplemental guidance for auditors and the audited entities to assist in the implementation of GAGAS. **Appendix I does not establish auditor requirements but instead is intended to facilitate auditor implementation of the standards contained in chapters 1 through 8.**

1.24 The subject matter of an attestation engagement may take many forms. Possible subjects of attestation engagements include reporting on:

Subsection (j) "specific procedures performed on a subject matter (agreed-upon procedures)".

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Chapter 3
General Standards

Independence **3.02**

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

3.03 Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information. Auditors should avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the auditors are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

3.04 When evaluating whether independence impairments exist either in fact or appearance with respect to the entities for which audit organizations perform audits or attestation engagements, auditors and audit organizations must take into account the **three general classes of impairments to independence— personal, external, and organizational**.

Footnote:

*If one or more of these impairments affects or can be perceived to affect independence, the audit organization (or auditor) should decline to perform the work—except in those situations in which an audit organization in a government entity, **because of a legislative requirement or for other reasons**, cannot decline to perform the work, in which case the government audit organization must disclose the impairment(s) and modify the GAGAS compliance statement. (See paragraphs 1.12 and 1.13.)*

3.45 Similarly, for attestation engagements, GAGAS incorporate the AICPA attestation standards. Auditors should be knowledgeable in the AICPA general attestation standard related to criteria, the AICPA attestation standards for field work and reporting, and the related Statements on Standards for Attestation Engagements (SSAE), and they should be competent in applying these standards and SSAE to the task assigned. Also, if auditors use GAGAS in conjunction with any other standards, they should be knowledgeable and competent in applying those standards.