



Chief Financial Officers Council
and
President's Council on Integrity and Efficiency

Best Practices Guide

for

**Coordinating the
Preparation and Audit of
Federal Financial Statements**

September 2007



Message to the CFOC and the PCIE

Seventeen years have passed since the enactment of the Chief Financial Officers Act of 1990 (CFO Act). We have all expended much effort to enhance the Federal Government's financial management. It is important to periodically assess our respective roles, responsibilities, and effectiveness and evaluate the communication between our two organizations.

The CFO Council (CFOC) and the President's Council on Integrity and Efficiency (PCIE) support the fundamental proposition that effective relationships are built upon clear expectations defined early and often, continuous communication and a shared commitment to improving financial management and accountability. As such, these organizations have updated the *Best Practices Guide for Coordinating the Preparation and Audit of Federal Financial Statements*, originally published in April 2001. This Guide's objective is to continue to foster and refine constructive working relationships between agency CFO and Inspectors General (IG), in the financial statement preparation and audit processes.

Best Practices Guide: Coordinating the Preparation and Audit of Federal Financial Statements

Objective

The objective of this *Best Practices Guide* is to foster constructive and professional working relationships between agency CFO and IG in the financial statement preparation and audit processes. The fundamental propositions that underlie this Guide are the need for clear expectations defined early and often, continuous communication, and a shared commitment to improving agency financial management.

Shared Goals

Consistent with the purposes of the CFO Act and the Inspector General Act of 1978, the CFO and IG communities have shared goals for the: (1) Production of complete, reliable, timely, and consistent financial information and (2) Improvement of systems of accounting, financial management, and internal controls. Both communities can contribute to these goals within the constraints of their differing statutory responsibilities and missions.

Responsibilities

The overall objective of the Federal financial statement audit is an expression of an opinion on whether the financial statements are fairly presented, in all material respects, in conformity with the accounting principles generally accepted in the United States. The fair presentation of the financial statements is the responsibility of the agency's management, notably the CFO. The IG's responsibility is to ensure that an audit is conducted for the purpose of expressing an opinion on the financial statements.

An entity's management is responsible for: preparing the annual financial statements in accordance with U.S. generally accepted accounting principles for Federal entities; establishing, maintaining, and assessing the internal controls that provide reasonable, but not absolute, assurance that the broad control objectives of the Office of Management and Budget (OMB) Circular No. A-123, revised, *Management's Responsibility for Internal Control* (Circular No. A-123) or its successors, are met; and complying with applicable laws and regulations. To meet these requirements, entities are required to prepare and submit consolidated financial statements in accordance with OMB Circular No. A-136, revised, *Financial Reporting Requirements*.

The auditor's responsibilities are to: obtain reasonable assurance about whether the financial statements are free from material misstatement and express an opinion on the agency's basic financial statements, or determine that an opinion cannot be expressed, in accordance with applicable audit standards; obtain an understanding of internal control, assess control risk, and test controls that have been properly designed and placed in operation based upon the internal control objectives in the OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (Bulletin No. 07-04), or its successors; and test the agency's compliance with selected provisions of laws and regulations that could directly and materially affect the basic financial statements.

Best Practices

The following best practices have been delineated to foster effective working relationships between the CFO and IG communities. These practices are based on the experiences of various agencies in effectively and efficiently addressing the requirements of the Government Management Reform Act (GMRA), the Accountability of Tax Dollars Act (ATDA), and the Government Corporations Control Act. While every best practice may not be applicable to every agency, they attempt to achieve the shared goals and objectives of this document.

When implemented by CFO and IG management, the best practices presented in this document can facilitate a more efficient and effective audit. In particular, the information outlined in the sections below will aid in attaining a positive outcome as it relates to:

- Planning;
- Schedule implementation;
- New standards and policy;
- Changes in the control environment;
- New audit and accounting staff;
- IG & CFO contractor oversight;
- Interim statements and procedures;
- Progress meetings;
- Audit adjustments;
- Final package presentation;
- Reporting; and,
- Lessons learned.

I. Perform Planning Activities

Purpose: To explore options for preparing and auditing agency financial statements, address potential problems, and implement lessons learned from the prior year's audit.

Planning meetings, initiated very early in the process and attended by CFO and IG staff members, facilitate the communication process that should occur throughout the entire audit.

- The initial planning meeting should establish a CFO and IG agreed-upon starting date for the audit and include the selection of the entrance conference date and other key entity organizations that should be included in the entrance conference (e.g., Procurement, Office of the Chief Information Officer, etc.).
- Meetings should include both Headquarters and field representatives, if applicable, as well as contractor personnel.
- Management should provide and the auditor should consider any work already performed by the entity or other reviewers (e.g., Circular No. A-123, Federal Managers' Financial Integrity Act (FMFIA), Federal Information Security Management Act (FISMA), Statement on Auditing Standards (SAS) 70 audits, etc.) when planning the audit. In addition, the auditor should provide feedback, as appropriate, to management that would allow for efficiencies to be achieved in future periods.

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- Tentative milestones for responses to “provided by management” information (sometimes known as prepared-by-client (PBC) information) and other major data requests, draft financial statements, and draft audit reports, should be discussed and agreement should be reached on a date by which to finalize them.
 - Meetings should include an update on the status of prior year significant audit findings and the potential effect of unresolved internal control and accounting issues in the audit report.
 - The IG staff (or its contractor) should provide the CFO staff with a high-level overview of the audit and staffing plan, including the work to be performed, the nature, timing, and extent of planned work (as is practicable), the level of assurance, and any potential restriction on the auditors’ reports.

II. Developing the Financial Statement Preparation and Audit Schedule

Purpose: To document the CFO’s and IG’s common understanding and commitment to the effort, and to provide accountability by which to measure progress.

Detailed milestones provide a blueprint for the timely preparation and audit of financial statements and underlying documentation.

- The entity CFO and IG jointly agree to a schedule of deliverables.
- Key milestones are established in writing, including the timely submission of complete financial statements by the CFO, management and legal representation letters by the appropriate entity management, and draft and final audit reports by the IG.
- Adequate time is built into the schedule for:
 - ✓ periodic briefings;
 - ✓ request and receipt of information from management;
 - ✓ consultations with OMB and the Government Accountability Office (GAO), as appropriate;
 - ✓ review and comment on draft audit findings and reports;
 - ✓ transmission of the Performance and Accountability Report (PAR)¹ to OMB by the year-end reporting deadline; and
 - ✓ transmission of the audited Special-Purpose Financial Statements to OMB, Treasury, and GAO by the year-end reporting deadline.
- The CFO identifies key entity contacts or liaisons responsible for each area presented in the PAR, including the financial statements and the required supplementary information.

¹ All references to the PAR also include the Agency Financial Report (if applicable) and the Annual Management Report under the Government Corporations Control Act. OMB has established a *pilot* for FY 2007 in which agencies may choose to produce an alternative to the consolidated PAR. The pilot has 3 required parts: 1) an Agency Financial Report; an Annual Performance Report; and a “Highlights” document. See Section II of OMB Circular No. A-136 for further details.

III. Implementation of New Standards, Policy, or Guidance

Purpose: Establish realistic expectations about the impact of new standards, policy, or guidance on the preparation and audit of financial statements.

Discussions between the auditors and entity representatives about emerging accounting and auditing issues can help facilitate the preparation and audit of agency financial statements.

- The CFO seeks advice from the IG and other auditors on management's plans to implement new accounting standards, policy, or guidance.
- The IG provides advice on accounting policy guidance pertaining to the implementation of any governing statutes.
- The IG and CFO personnel discuss changes to accounting and auditing standards and their impact on the approach and reporting of the results of the financial statement audit.
- The GAO and OMB are consulted, as appropriate, to ensure consistency of approach government-wide.

IV. Evaluating Changes in the Control Environment

Purpose: Establish realistic expectations about the impact of changes in personnel, systems, organization, or internal control structure on the preparation and audit of financial statements.

Discussions between the auditors and entity representatives about changes to the overall control environment can potentially avoid an adverse impact to the timely completion of the audit.

- The CFO should apprise the auditors of any financial systems that are going through major changes or of any new system implementations planned during the year.
- The CFO should disclose the internal control deficiencies identified as part of the procedures under OMB Circular No. A-123, Appendix A, and ensure open access to documentation of plans, testing, and results.
- The CFO should discuss the current control environment for ensuring component entities are responsive to auditor meeting and document requests.
- The CFO should discuss the current control environment for ensuring component entities implement and provide the auditors support for corrective actions to auditor findings.

V. Managing a Change in Contractor or IG and/or CFO staffs

Purpose: To minimize difficulties associated with the change in audit staff, whether IG or independent public accountants (IPA), and/or changes in CFO staff.

Key staff changes should be communicated at the beginning of the audit and, if applicable, throughout the audit. While it is recognized that turnover is normal, it is important that everyone is familiar with the key staff involved in the audit.

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- When working with new audit firms, agencies should supply as much information regarding their organization, mission, and financial management processes as early in the audit process as possible to assist the audit firm in becoming familiar with the entity.
 - The IG should ensure that the appropriate audit and agency personnel meet when there have been changes in key personnel at any time during the audit.
 - Similarly, when there have been changes to CFO or other critical entity staff, the CFO should notify the IG and arrange a meeting, if needed, to ensure all parties are aware of the change.
 - When necessary, compensating measures should be implemented until new parties to the statement preparation process or audit are adequately trained and informed of the overall audit process.
 - In instances where a change at the entity, IG, or IPA does occur, a more-than-the-usual level of attention should be given to the planning stage and the overall communication strategy. This includes communicating staff changes early enough to ensure IPA compliance with an entity's security requirements.
 - The auditor should establish an understanding of the audited entity and the individuals charged with governance.
 - The IG and CFO should ensure that their staff and/or contractors have sufficient training and oversight to perform their respective duties.

VI. Providing IG and CFO Contractor Oversight

Purpose: To ensure that IG personnel are actively involved in managing the financial statement audit.

IG offices that use IPAs or other contractors should ensure that key aspects of this Guide are included in the contractor's audit planning and methodology.

- When work is done by an IPA firm, a senior IG auditor should be designated as the IG official point of contact and introduced, as such, in the entrance conference; actively involved in monitoring the financial statement audit; and facilitate an effective and professional relationship between IPAs and entity representatives.
- The IG should issue appropriate audit notification letters and host the entrance and exit conferences.
- The IG should review IPA-developed audit findings before the IPA communicates them to CFO personnel. The IPA should communicate proposed adjustments to CFO personnel.
- The IG and CFO personnel should ensure that communications between the auditors and entity officials are open and frequent and that issues are addressed in a timely manner.
- The IG should perform the appropriate level of review throughout the audit and that is applicable to the type of reporting planned and degree of responsibility the IG accepts for the work the contract auditor performs.

Purpose: To ensure that CFO personnel are actively involved in managing the financial statement preparation process.

CFO offices that use contractors should ensure adequate oversight of contractors' work and that key aspects of this Guide are communicated to those contractors.

- CFO management should be actively involved in any work performed by its contractors and should review all financial statements, related information, and audit communications before delivery to the auditors to help ensure the accuracy of the communications.
- CFO personnel should obtain contractor comments when preparing responses to audit findings and proposed adjustments, if applicable.
- CFO personnel should ensure that communications between its contractors and the auditors are open and frequent and that issues are addressed in a timely manner.
- CFO personnel should review its contractors' work to ensure compliance with contract requirements.

VII. Interim Financial Statement Reporting and Audit Testing

Purpose: To facilitate early identification of potential problems and reduce the effect on year-end workloads.

Due to reporting and auditing deadlines, interim financial statement reporting and interim audit testing contributes significantly to the timely completion of the financial statement audit.

- The interim financial statements should include accruals, as appropriate, and financial statement notes should be drafted as early as possible to meet the year-end reporting deadline.
- CFO personnel should analyze interim financial statements to identify systemic or any other issues that may be affecting financial statement balances. CFO personnel should immediately communicate any significant issues to auditors.
- CFO personnel should provide third quarter financial statements to auditors for substantive testing and auditors should perform fourth quarter roll-forward testing.
- OIG personnel should bring issues it identifies to entity management's attention for resolution by management as early as possible.
- Interim audit testing is especially important in cases where a new audit firm is involved. The sooner the firm is on-site and familiar with their new client, the more efficient and effective it can be later in the audit process.

VIII. Holding Regular Progress Meetings

Purpose: Allow IG and CFO personnel an opportunity to clarify the importance and status of potential issues.

Regular progress meetings should be a part of the continuous communication process during the preparation and audit of financial statements. While not intended to be an end in themselves, used appropriately, they can convey important information, provide opportunity for feedback, facilitate reaching agreements, and eliminate “surprises.”

- In addition to the entrance and exit conferences, IG and CFO personnel² should hold regular progress meetings at the field and/or headquarters level, as appropriate. Other key entity personnel should be invited and encouraged to attend these meetings.
- These meetings become more frequent as the financial statements are prepared and the audit draws to conclusion (e.g., bi-weekly in the beginning and daily toward the end).
- Regular review of an auditor-provided list detailing key outstanding audit documentation due from management (the PBC list) allows for discussion and resolution of problems before significant delays occur.
- Regular progress meetings allow IG and CFO personnel an opportunity to clarify the relative importance and status of potential issues and to allocate resources (e.g., for providing documentation, correcting financial statements, etc.) accordingly.
- At the earliest possible time, IG personnel, other audit staff, CFO personnel, or other entity management, as applicable, should alert each other to any potential issues or known obstacles that could affect the audit opinion or the reporting deadline. This includes potential significant deficiencies and compliance issues the auditors identified and known problems with the financial statement balances.
- Both CFO and IG personnel should alert each other if they become aware of new information that may require previously-issued financial statements to be restated and that could affect the auditor’s report on those financial statements.
- The best approach is one with no “surprises.”

IX. Issuing Findings and Making Audit Adjustments

Purpose: To seek concurrence on the facts and circumstances surrounding internal control findings, compliance issues, and audit adjustments.

Auditors should seek concurrence from the appropriate levels of management with the goal of expediting the reporting process at the end of the audit.

- During the course of the audit, and after appropriate discussion with entity personnel responsible for the area under audit, proposed audit findings and adjustments are shared with program office and accounting personnel.

² It is helpful if the CFO and OIG each designate points-of-contact for managing the activities in this section.

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- A written response to the proposed audit findings and adjustments is requested.
 - Copies of the audit findings and adjustments are also provided to the appropriate CFO Office (Headquarters, Bureau, or Division) and IG offices.
 - The findings and adjustments provide the basis for issues discussed in the internal control and compliance reports and, if applicable, management letter.

X. Preparing the Final Audit Package and Representation Letters

Purpose: To ensure preparation and approval of final versions of the financial statements, PAR, transmittal letters, and representation letters in a timely manner.

The final audit package and representation letters typically require high-level management approval and are some of the last documents to be reviewed by the auditors. Timely presentation of these documents is the key to avoiding “surprises” and delays late in the audit process.

- Management representatives should obtain final entity head approval of Management's Discussion and Analysis (MD&A), transmittal letters, other required information such as performance measures, and management representation letters, as early as possible to allow final review by the auditors prior to distribution of draft audit reports and to avoid surprises and delays in final audit reporting.
- Management representatives and the auditors should work together to ensure final audit adjustments are provided to management and posted to the financial statements as soon as possible to avoid delays in issuing draft audit reports.
- Before the auditor concludes that (s)he has obtained sufficient, appropriate audit evidence to support the audit opinion, (s)he must obtain a management representation letter signed by the entity head and CFO. Prior to the entity head and CFO signing the representation letter, management representatives should re-familiarize them with the prior year management representations and alert them to any anticipated changes for the current audit. Auditors should provide management with drafts of the required representation letters as early as possible to ensure timely receipt of the final signed letters.
- Requests for legal representation letters should include effective dates that satisfy the auditors as well as the requirements of Bulletin No. 07-04, or its successors, related to the audit of the government-wide financial statements. In addition, the CFO and IG (and applicable contractors) should agree on materiality thresholds and legal representation letter due dates as early as possible.
- Signed representation letters should be provided to the auditors prior to the date for delivery of final audit reports. Additionally, the CFO and IG (and applicable contractors) must coordinate the dating of the representation letters because the letters cannot be signed before the auditor has sufficient, appropriate audit evidence to support the audit opinion. Therefore, any suggested changes to the auditors' required representations must be discussed early with the auditors to avoid delays.
- The final CFO letter introducing the financial section should be approved by management shortly after the auditor determines the opinion.

XI. Reporting

Purpose: To allow time for appropriate persons to review and respond to the report(s) and for auditors to incorporate comments.

Close, continual communication and coordination during the reporting process are the keys to achieving a successful conclusion to the audit.

- Key milestone schedules must include details for the delivery, review, and revision of draft and final audit reports, and, if applicable, the management letter.
- In the case of contracted audits, sufficient time must be allowed for the IG to review the reports before their release to the agency to ensure IG concerns are addressed.

XII. Discussing Lessons Learned

Purpose: To continue making improvements in the financial statement preparation and audit processes each year.

Planning the current year's activities based upon lessons learned from the past will help ensure the CFO's and IG's efforts are effective and efficient.

- Following completion of the audit, representatives from the CFO, IG, and contractor should hold a lessons-learned meeting to discuss how coordination may be further improved and to highlight challenges for the next audit cycle. This meeting should be conducted soon after the completion of the audit so that the past year's experience and issues can be appropriately addressed.

Conclusion

As previously noted, it is important to periodically assess our respective roles, responsibilities, and effectiveness and analyze the communication between our two organizations. The CFO and the PCIE support the fundamental proposition that effective relationships are built upon clear expectations defined early and often, continuous communication, and a shared commitment to improving financial management and accountability. By working together to implement these best practices, the CFO and IG communities can and should foster an environment that supports the purposes and objectives of the CFO Act, GMRA, the ATDA, and the Government Corporations Control Act.

Timeline

This table is a compilation of several entities' standard timelines that includes "high-level" key dates that can be used as a guide when establishing a new timeline for the preparation and audit of financial statements.

Financial Statement Audit Timeline	
Key Month or Date	Task or Deliverable
January	Planning Discussions – IG and CFO
Mid-February	Entrance Conference
Beginning of March	Field Work Begins
Mid-July	First Legal Letter from General Counsel
End of July	Full set of June 30 Financial Statements Submitted by Entity
Mid-August	Last day of Interim Test work
Late August	Field Office(s) FMFIA Letters
Late August	Full Draft June 30 PAR Submitted by Entity
Mid-September	Headquarters' FMFIA Letter
Mid-October	First Draft September 30 Financial Statements
Mid-October	First Draft September 30 PAR
Late October	Final Audit Adjustments
Late October	Final Legal Representation Letter

Financial Statement Audit Timeline	
Key Month or Date	Task or Deliverable
Late October/Early November	Management Representation Letters, including those related to the Government-wide Financial Report System (GFRS) Special-Purpose Financial Statements
~ First of November	Final Adjusted Financial Statements including Notes, MD&A, Supplementary Information, and the GFRS Special-Purpose Financial Statements
~ First of November	Final PAR and GFRS Special-Purpose Financial Statements Completed
~ November 8	Field Work Completed & Draft Audit Report Prepared, including Field Work & Draft Audit Opinion on the GFRS Special-Purpose Financial Statements
~ November 9	Exit Conference
~ November 13	Final Audit Report and Opinion Issued
November 15	Audited Financial Statements, PAR, and GFRS Special-Purpose Financial Statements and Audit Opinion Due to OMB, Treasury, and GAO
~ December 7	Subsequent changes to the Legal and Management Representation Letters sent to OMB, Treasury, and GAO
~ December 7	Representations by the IG to GAO as the principal auditor of the Government-wide Financial Statements