


# MANAGEMENT DIRECTIVE

## Commonwealth of Pennsylvania Governor's Office

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| <b>Subject:</b><br>Performance of Audit Responsibilities  | <b>Number:</b><br>325.3 Amended   |
| <b>Date:</b><br><br>January 10, 2011  | <b>By Direction of:</b><br><br>Mary A. Soderberg, Secretary of the Budget |
| <b>Contact Agency:</b><br>Office of the Budget, Office of Comptroller Operations, Bureau of Audits,<br>Telephone 717.783.0114 |   |

**This directive establishes policy, responsibilities, and procedures for the performance of audits and nonaudit services for commonwealth agencies. This amendment includes changes to definitions, policy, responsibilities, and procedures as a result of the rescission of *Management Directive 325.4, Agency Annual Audit Plan*. Marginal dots are excluded due to major changes.**

- 1. PURPOSE.** To establish policy, responsibilities, and procedures for the performance of audit and nonaudit services for commonwealth agencies.
- 2. SCOPE.**
  - a. This directive applies to all departments, boards, commissions, and councils (hereinafter referred to as "agencies") under the Governor's jurisdiction.
  - b. Audit organizations within the scope of this directive include, but are not limited to: Agency Audit Organizations, Comptroller Operations Audit Organizations, certified public accountants (CPAs) performing audits for the commonwealth, and public accountants performing audits for the commonwealth.
  - c. Policy and responsibilities contained herein apply to audits performed under an agency's direction and are not intended to limit audit functions performed by the Department of the Auditor General, State Treasurer, or Legislative Budget and Finance Committee.
- 3. OBJECTIVE.** To ensure Agency Audit Organizations, Comptroller Operations Audit Organizations, and other qualified auditors understand the policy, responsibilities, and procedures established for performing audits and nonaudit services.

#### 4. DEFINITIONS.

- a. **Agency Audit Organization.** Agency staff, organized independently of other agency organizations, programs, activities, and functions to be examined; responsible for ensuring audits are conducted objectively.
- b. **Audit.** An independent examination or appraisal of the diverse operations and controls within an agency for use as a management tool to determine whether financial statements and transactions are fairly stated; applicable policies, procedures, and principles are followed; established standards are met; resources are used efficiently and economically; and the organization's objectives are being achieved. Types of audits performed within the commonwealth are:
  - (1) **Financial Audit.** An independent assessment of and reasonable assurance about whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with recognized criteria. Financial audits under [\*Government Auditing Standards\*](#) include:
    - (a) **Financial Statement Audit.** A financial audit conducted to provide reasonable assurance about whether the financial statements of the audited entity are presented fairly in all material respects in conformity with generally accepted accounting principles, or other bases of accounting.
    - (b) **Other Types of Financial Audits.** Other types of financial audits that provide different levels of assurance and entail various scopes of work, including, but not limited to: providing special reports, such as for specified elements, accounts, or items of a financial statement; reviewing interim financial information; and financial presentations to comply with contractual agreements or regulatory requirements.
  - (2) **Attestation Engagement.** Attestation engagements cover a broad range of financial or nonfinancial objectives and may provide different levels of assurance about the subject matter or assertion depending on the user's needs. The three types of attestation engagements are:
    - (a) **Examination.** Obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on the criteria in all material respects or the assertion is fairly stated in all material respects based on the criteria.
    - (b) **Review.** Conducting sufficient testing to express a conclusion about whether any information came to the auditor's attention that indicates the subject matter is not based on the criteria or the assertion is not fairly stated in all material respects based on the criteria.
    - (c) **Agreed-Upon Procedures.** Performing specific procedures on a subject matter.

- (3) **Performance Audit.** Audits that provide reasonable assurance to support the auditors' findings and conclusions in relation to the audit objectives based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audit objectives include assessments of program effectiveness, economy and efficiency; internal control; compliance; and prospective analyses.
- c. **Comptroller Operations Audit Organizations.** Office of the Budget, Office of Comptroller Operations, Bureau of Audits (BOA) and Bureau of PA Liquor Control Board Services audit staff.
- d. **Government Auditing Standards (commonly referred to as the "Yellow Book"):** A publication issued by the U.S. Government Accountability Office, Comptroller General of the United States, which contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations.
- e. **Nonaudit Services.** Other activities performed by auditors that do not meet the definition of an audit. Examples include providing assistance or technical expertise; providing information or data without auditor verification of the data; and providing investigative or oversight assistance.
- f. **Qualified Auditors.** Comptroller Operations Audit Organizations; Agency Audit Organizations; CPAs or public accountants registered under *Act 140*, titled "*The CPA Law*," as amended December 4, 1996, *P.L. 851, No. 140*; and other professional consulting firms performing audits and evaluations in accordance with applicable auditing standards.

## 5. POLICY.

- a. Audits of commonwealth organizations, programs, activities, and functions are to be performed by qualified auditors, and must be performed in accordance with generally accepted government auditing standards (GAGAS), promulgated by the United States Government Accountability Office in its publication, Government Auditing Standards, except where it is determined to be more cost effective and operationally effective to have an audit performed in accordance with generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants.
- b. Government Auditing Standards do not apply to nonaudit services. Therefore, when performing nonaudit services, auditors should not report that the nonaudit services were conducted in accordance with Government Auditing Standards. Auditors must evaluate whether providing nonaudit services creates a threat to independence of mind and in appearance with respect to any GAGAS audit or attestation engagement performed.
- c. Agency Audit Organizations shall be organized independent of the programs, activities, and functions to be examined, as a means of ensuring the objectivity of all audits conducted.

## 6. RESPONSIBILITIES.

### a. Agency Heads.

- (1) Allocate agency audit responsibility to qualified auditors in accordance with policy contained in this directive.
- (2) Advise BOA of all audits being performed of its programs and activities. Provide periodic timely updates to BOA prior to the start of the audit, the progress of the audits, and any significant issues to be included in the report.

### b. Comptroller Operations Audit Organizations.

- (1) Perform audit responsibility in accordance with policy contained in this directive.
- (2) Ensure that audits and nonaudit services are performed in accordance with established policy, procedures, regulations, and applicable auditing standards.

### c. Agency Audit Organizations and Other Qualified Auditors. Perform audit responsibilities in accordance with policy contained in this directive.

## 7. PROCEDURES.

### a. Agencies.

- (1) Allocate agency audit responsibility to qualified auditors in accordance with policy contained in this directive.
- (2) Notify BOA of all audits being conducted of agency programs and operations along with periodic updates of the progress of each audit.

### b. Comptroller Operations Audit Organizations. Monitor to ensure that audit and nonaudit services are performed in accordance with established policy, procedures, regulations, and applicable auditing standards.

### c. Agency Audit Organizations/Comptroller Operations Audit Organizations/Other Qualified Auditors. Perform audit responsibilities in accordance with policy contained in this directive, as assigned.

**This directive replaces, in its entirety, *Management Directive 325.3*, dated August 27, 2009.**