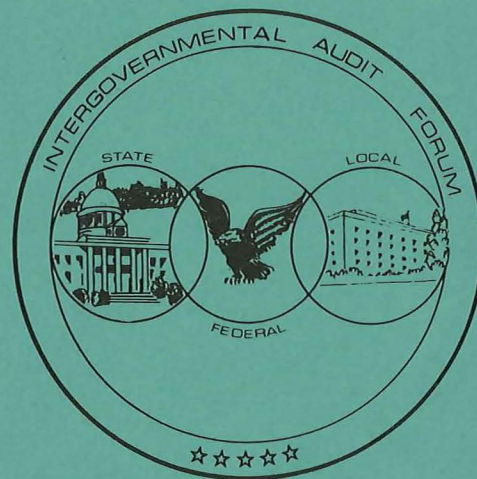


GUIDELINES FOR PREPARATION OF REQUESTS FOR AUDIT PROPOSALS



WESTERN INTERGOVERNMENTAL AUDIT FORUM
JUNE 1981

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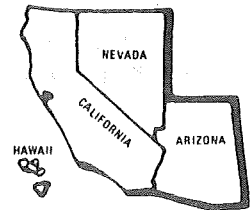
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Local governments are increasingly seeking the assistance of public accountants for audits in connection with their financial activities. Traditionally, these governments have used requests for proposals to select the accountants who will perform such audits. But since there has been little consistency in these requests or in the responses to them, the result often has been confusion, delays in the audits, and additional costs to the parties involved.

These guidelines have been prepared to foster a reasonable degree of consistency between requests and responses, thus bringing about a closer matching of the auditing services required with those being offered. They are intended primarily for local governments' use in connection with financial or compliance audits. Similar guidelines for use in performance audits dealing with economy, efficiency, and effectiveness of operations are under consideration.

These guidelines were prepared by a subcommittee of the Western Intergovernmental Audit Forum chaired by a representative to the Forum from the Counties Audit Chiefs Committee, California State Association of County Auditors. This subcommittee included members from city, county, state, and the Federal Government and representatives from the California Society of Certified Public Accountants' Committee on Governmental Accounting and Auditing. We extend our appreciation to the members of the subcommittee and to all the members of the Western Forum who assisted.

We distributed these guidelines as an exposure draft two years ago. We encouraged their review and use by organizations seeking audits and by others in the auditing community, and requested comments based upon this experience. Literally, hundreds of comments were received--many suggesting changes. In addition, we consulted with the United States General Accounting Office and the American Institute of Certified Public Accountants. For the assistance of these two organizations, the Western Intergovernmental

Audit Forum is deeply grateful. All suggestions were carefully weighed and considered, and appropriate revisions to the draft guidelines were made. This is the resulting document.



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WESTERN INTERGOVERNMENTAL AUDIT FORUM

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
I. INFORMATION TO BE FURNISHED BY THE REQUESTER	3
A. Requester's Address and Recipient of Proposals	3
B. Nature of Services Required	3
C. Description of Entity and Records to be Audited	4
D. Assistance Available to Proposer	5
E. Report Requirements	6
F. Time Considerations and Requirements	7
G. Contractual Arrangements	8
H. Report Review, Timing, and Number of Copies	8
I. Working Papers	8
J. Right to Reject	8
II. INFORMATION TO BE REQUESTED FROM THE PROPOSER	9
A. Title Page	9
B. Table of Contents	9
C. Letter of Transmittal	9
D. Profile of the Proposer	9
E. Mandatory Criteria	10
F. Summary of the Proposer's Qualifications	10
G. Proposer's Approach to the Examination	10

	<u>Page</u>
H. Compensation	11
I. Additional Data	12
III. EVALUATION OF PROPOSALS	12
A. Technical Factors	13
B. Cost Factors	13
APPENDIX - Example of a Proposal Evaluation Method	14

WESTERN INTERGOVERNMENTAL AUDIT FORUM

GUIDELINES FOR PREPARATION OF REQUESTS FOR AUDIT PROPOSALS

INTRODUCTION

Local governments today are increasingly engaging public accountants to perform financial or compliance audits. Local governments 1/ generally seek the most suitable public accounting firm by sending requests for proposals (RFPs) to public accountants asking if they would like to submit a proposal for the audit work specified in the RFP. Interested public accounting firms usually respond to these requests with a detailed audit proposal outlining the firm's qualifications, proposed audit work plans, and price for doing the audit.

RFPs issued by local governments and audit proposals prepared in response to these requests unfortunately differ widely in style and scope. Because of the wide differences, independent public accountants often find RFPs difficult to understand, and government agencies have trouble understanding the audit proposals prepared by the accountants. These guidelines have been prepared to establish a reasonable degree of consistency in the form and content of both these documents.

1/Although this publication is intended for use by local governments (cities, counties, and special districts), these guidelines may also be helpful to State and Federal agencies.

The guidelines should be used as a reminder to help ensure that all matters having a bearing on the proposal are made known to the proposer and that all necessary elements are included in the proposal. The guidelines should help both requesters and responders improve their requests and responses and should reduce the time required for preparation.

The guidelines are stated in general terms because requesters must be able to tailor each request for a proposal to clearly reflect specific needs or requirements including recognition of the relative size of the audit engagement. Accordingly, in certain areas, the guidelines are presented as suggestions which may be modified.

These guidelines are not intended for performance audits in which the economy, efficiency, and effectiveness of operations or programs are measured or evaluated.

I. INFORMATION TO BE FURNISHED BY THE REQUESTER

This section provides guidance as to the information requesters should include in the RFP to ensure that proposers have the information they need to make a responsive proposal. The importance of complete and understandable proposal requirements cannot be overemphasized.

A. Requester's Address and Recipient of Proposals

1. Give the name and address of the requester.
2. Furnish the names, addresses, titles, and telephone numbers of persons to whom questions concerning the proposal should be directed.
3. Supply information on the number of bound and sealed proposals to be delivered; the name, address, and room number of the recipient; and the date and hour by which proposals must be received.
4. State that proposals will become a part of the requester's official files without obligation on the requester's part.

B. Nature of Services Required

If a fixed price proposal is requested, the proposed procedure should be such that there will be few, if any, uncertainties about the conditions, maintenance, and location of the records.

1. Describe the funds, account groups, functions, or activities to be audited.
2. State which of the following types of audits are required and any special scope requirements. The audit scope and the applicability of audit guides and programs should be stated in detail.
 - a. Examination of financial statements in accordance with (1) the generally accepted auditing standards as included in Statements on Auditing Standards, published by the American Institute of Certified Public Accountants, (2) the GAO Standards For Audit Of Governmental Organizations, Programs

Activities, And Functions (1981 revision), and (3) the GAO Guidelines For Financial And Compliance Audits Of Federally Assisted Programs.

- b. Examination of compliance with pertinent laws, regulations, contracts, etc. The RFP should identify the applicable laws, regulations, and regulatory agencies through reference to publications such as (1) the GAO Standards For Audit Of Governmental Organizations, Programs, Activities, And Functions (1981 revision), (2) the GAO Guidelines For Financial And Compliance Audits Of Federally Assisted Programs, and (3) Attachment P of OMB Circular No. A-102, Uniform Administrative Requirements for Grants-In-Aid to State and Local Governments.
- c. Combination of a. and b.

- 3. Stipulate the period to be audited.
- 4. Specify reports required, including special reports to Federal, State, or other agencies.
- 5. Specify whether exit conferences are to be held and, if so, with whom.

C. Description of Entity and Records to be Audited

- 1. Give needed general information such as type of government (chartered or general law), population, and budget size.
- 2. Specify the basis of accounting used during the year and at year's end. Specify differences in accounting among funds to be audited.
- 3. Describe budget records, and state whether revenues, appropriations, and encumbrances are recorded in the accounting records. Indicate the magnitude of the financial activity.
- 4. Describe systems, records, and procedures:
 - a. Note any available manuals, written policies, and procedures covering such items as cash, receivables, fixed assets, and liabilities.

- b. Identify the major segments of the accounting records that are computerized and the availability of related system documentation. Also, identify hardware, operating system, and software packages.
 - c. Describe internal audit program, staff size, and extent of coverage.
 - d. Identify individuals responsible for maintaining records and preparing reports.
 - e. Identify known problems related to the accounting system or the internal control, or other problems. State any known exceptions to generally accepted accounting principles or any other accounting problems.
 - f. In those rare cases where records cannot be made available for inspection during the proposal process, describe the condition and completeness of the records the auditor should assume in his proposal.
5. State whether copies of the prior year's financial statements and budget are available.

D. Assistance Available to Proposer

- 1. Give the name of the auditor who made the most recent audit, the period covered, report date, and type of opinion. State whether previous audit working papers are available for inspection and where they are located. If the audit opinion was qualified, state whether the condition causing the qualification has been corrected.
- 2. State the names of the requester's staff available to assist the proposer by providing information and explanations.
 - a. State whether the accounting staff can prepare schedules, reproduce documents, pull documents, etc.
 - b. State whether any internal audit time is available and whether internal audit reports are available.
 - c. State whether the data processing staff, equipment, and generalized user software are

available for auditing purposes, and specify the make and model of the computer to be used and what type of operating system is used.

- d. State whether legal counsel is available.
3. State the names and titles of officials who will issue representation letters for inventory evaluations, pledged assets, contingent liabilities, potential litigation, etc., if required.
4. State whether interfund and interdepartmental reconciliations have been made.
5. State the location of available work areas and equipment and its location in relation to the records.
6. Give the place, date, and time of the proposers' conference. (A proposers' conference is advisable for large audits to save the requester's time answering individual questions about the RFP and also to treat each proposer equally. Immediately following the proposers' conference, the proposers can be shown the accounting and other applicable records.)
7. State whether conference questions will be responded to in writing and whether the RFP will be amended if necessary.

E. Report Requirements

Identify the information to be included in the audit report and in the management letter referenced in the audit report.

1. Specify to whom the report is to be addressed and what financial statements are to be included in the report.
2. Reports of examinations of financial statements must (a) state the scope of the examination and that the audit was performed in accordance with generally accepted auditing standards and (b) must include an opinion as to whether the statements conform to generally accepted accounting principles.
3. Reports of compliance examinations must include a statement that the examination was conducted

in accordance with applicable auditing standards. The audit report must state whether the examination disclosed instances of significant noncompliance with laws and regulations. Findings of noncompliance or ineligible expenditures must be presented in enough detail for management to be able to clearly understand them.

4. If the report to be prepared relates to a special purpose examination, specify what is to be reported.
5. Specify that a management letter is required and that it should include a statement of audit findings and recommendations affecting the financial statements, internal control, accounting, accounting systems, legality of actions, other instances of noncompliance with laws and regulations, and any other material matters.
6. State whether the auditor will be required to make a presentation to the governing body.

F. Time Considerations and Requirements

The following dates should be specified to the extent applicable. The RFP should state that the dates are firm unless waived in writing by an authorized person.

The RFP procedure should be completed in time to permit the auditor to commence preliminary work prior to the close of the period to be audited.

1. Date of the proposers' conference.
2. Date and time for proposal submission. The preparation of audit proposals is an expensive, time consuming process for the proposer; therefore, a reasonable time must be allowed--at least three weeks to a month.
3. Date, time, and place for selected proposer interviews, if desirable.
4. Date of contract award.
5. Dates audit work can be commenced:
 - a. Preliminary work prior to closing accounts.
 - b. Postclosing work. (Some requesters may not want auditors working during closing.)

6. Date for preliminary report completion and exit conference.
7. Date for final report submission. (The report should be submitted within thirty days of the last exit conference.)

G. Contractual Arrangements

Provide general information about the contract to be awarded. Specify the period of the contract. Normally a multi-year contract offers advantages to both parties. Multi-year contracts may not be legal in some jurisdictions; however, problems might be overcome by including the option to cancel in any of the following years. If the contract will be limited to one year, state the requester's intent regarding its renewal. 1/

H. Report Review, Timing, and Number of Copies

1. State that prior to submission of the completed report, the audit firm's staff will be required to review a draft of the proposed report and management letter with persons named by the requester.
2. Specify the number of copies of the report and the number of copies of the management letter to be delivered and the person to whom the report and management letter are to be delivered.

I. Working Papers

1. Specify that the working papers will be retained for at least three years (more if necessary).
2. Specify that the working papers will be available for examination by authorized representatives of the cognizant Federal audit agency and of the requester.

J. Right to Reject

The RFP should state that the requester reserves the right to reject any and all proposals submitted and

1/These guidelines are not to be used for full details of the contract. The Western Intergovernmental Audit Forum is considering issuing a second publication on contracting for public accounting services.

to request additional information from all proposers. It should also state that any award made will be made to the firm which, in the opinion of the requester, is best qualified.

II. INFORMATION TO BE REQUESTED FROM THE PROPOSER

In order to simplify the review process and obtain the maximum degree of comparison, requesters should require that proposals be organized in the manner specified by the RFP. The following outline suggests how a proposal can be organized to include all the information called for in the RFP.

A. Title Page

Show the RFP subject, the name of the proposer's firm, local address, telephone number, name of the contact person, and the date.

B. Table of Contents

Include a clear identification of the material by section and by page number.

C. Letter of Transmittal

Limit to one or two pages.

1. Briefly state the proposer's understanding of the work to be done and make a positive commitment to perform the work within the time period.
2. State the all-inclusive fee for which the work will be done.
3. State the names of the persons who will be authorized to make representations for the proposer, their titles, addresses, and telephone numbers.
4. State that the person signing the letter will be authorized to bind the proposer.

D. Profile of the Proposer

1. State whether the firm is local, regional, national, or international.

2. State the location of the office from which the work is to be done and the number of partners, managers, supervisors, seniors, and other professional staff employed at that office.
3. Describe the range of activities performed by the local office such as auditing, accounting, tax service, or management services.
4. Describe the local office's capability to audit computerized systems, including the number and classifications of personnel skilled in computer sciences who will work on the audit.

E. Mandatory Criteria

1. Affirm that the proposer is a properly licensed certified public accountant or a public accountant licensed on or before December 31, 1970.
2. Affirm that the proposer meets the independence standards of the GAO Standards For Audit Of Governmental Organizations, Programs, Activities And Functions (1981 revision).

F. Summary of the Proposer's Qualifications

1. Identify the supervisors who will work on the audit, including staff from other than the local office. Resumes including relevant experience and continuing education for each supervisory person to be assigned to the audit should be included. (The resumes may be included as an appendix.)
2. Describe the recent local and regional office auditing experience similar to the type of audit requested, and give the names and telephone numbers of client officials responsible for three of the audits listed. 1/

G. Proposer's Approach to the Examination

Submit a work plan to accomplish the scope defined in section I. B. of these guidelines. The work plan should include time estimates for each significant

1/Since it is time-consuming to obtain permission to use people as references, references should not be requested unless they are going to be used.

segment of the work and the staff level to be assigned. Where possible, individual staff members should be named. The planned use of specialists should be specified.

1. Financial Audit

- a. State whether the examination will be made in accordance with generally accepted auditing standards. 1/
- b. State that the primary purpose of the examination, unless it is otherwise intended, is to express an opinion on the financial statements and that such an examination is subject to the inherent risk that errors or irregularities may not be detected. State that if conditions are discovered which lead to the belief that material errors, defalcations, or other irregularities may exist, or if any other circumstances are encountered that require extended services, the auditor will promptly advise the requester. And finally, state that no extended services will be performed unless they are authorized in the contractual agreement or in an amendment to the agreement.

2. Compliance Audit

State that in accordance with the auditing standards of the cognizant Federal agency or in accordance with other applicable standards 2/, the proposer will select the necessary procedures to test compliance and to disclose noncompliance with specified laws, regulations, and contracts.

H. Compensation

State the total hours and hourly rate required by staff classification and the resulting all-inclusive maximum fee for which the requested work will be done. State whether data processing will be used in the examination and, if so, estimate the data processing

1/Standards for the audits of financial statements are discussed in section I.B.2.

2/Standards for compliance audits are discussed in section I.B.2.

resources the requester will need to supply in terms of computer time, operator time, and programmer time.

I. Additional Data

Since the preceding sections are to contain only data that is specifically requested, any additional information considered essential to the proposal should be included in this section. The proposer's general information publications, such as directories or client lists, should not be included unless specifically requested. If there is no additional information to present, state "There is no additional information we wish to present."

III. EVALUATION OF PROPOSALS

The method of evaluating proposals may vary considerably with the size and complexity of the government organization and the scope of services required. If the method of evaluation has been predetermined, it should be described in an appendix to the RFP, giving a brief summary of how the selection process will work. Including the point range that will be used to evaluate proposals is also desirable.

To have a meaningful evaluation, care must be taken in selecting evaluators. Evaluators must have the background and experience necessary to make meaningful comparisons of the relative merits of alternative audit approaches and to assess the hours required by staff level to complete the various segments of the audit as well as determine if the experience of assigned staff is adequate for the type of audit desired. In addition, the evaluators should be given an established method to ascertain which proposer best meets the requester's needs.

Occasionally, several proposals may be so similar in quality that oral interviews may have to be arranged to assist in making the final selection.

The following factors should ordinarily be considered during an evaluation.

A. Technical Factors

1. Responsiveness of the proposal in clearly stating an understanding of the work to be performed.

Evaluators should consider:

- Appropriateness and adequacy of proposed procedures.
- Necessity of procedures.
- Reasonableness of time estimates.
- Appropriateness of assigned staff levels.
- Timeliness of expected completion.

2. Technical experience of the firm.
3. Qualifications of staff.
4. Size and structure of the firm.

B. Cost Factors

1. Cost of the work to be performed.

Although cost is a significant factor, it should not be the dominant factor. Cost should be given more importance when all the other evaluation criteria are relatively equal.

If there is reason to believe that an unreasonably low proposal has been made, it should be rejected. One method of measuring reasonableness is to divide the proposed cost by a reasonable average hourly rate to show hours of effort that might be expected.

Included as an appendix to these guidelines is an example of an evaluation method.

EXAMPLE OF A PROPOSAL EVALUATION METHOD

The following is an example of a method of evaluating proposals. The evaluation formula and the values assigned to the criteria given are for illustration only. Requesters should design formulas and criteria that meet their own needs.

Total scores will be determined by adding the points received for technical qualifications (maximum of 75 points) to the points received for the cost of the audit (maximum of 25 points). The total score will be determined by the following formula:

$$\frac{\text{Technical Score for this Firm}}{\text{Highest Technical Score Received}} \times 75 = \text{Technical Score}$$

$$\frac{\text{Lowest Cost of All Bids}}{\text{Cost of Bid for this Firm}} \times 25 = \text{Cost Score}$$

In the event that oral interviews are necessary, additional points will be given on a scale of 0-10. While the total score will be a significant factor, the requester reserves the right to make a final selection.

The evaluation of technical qualifications will be based on the following criteria:

I. Mandatory Criteria

Proposers will not be considered unless they meet each of the criteria in section I.

1. Must be a certified public accountant properly licensed, or a public accountant properly licensed on or before December 31, 1970.
2. Must meet the independence standards of the GAO Standards For Audit Of Governmental Organizations, Programs, Activities And Functions (1981 Revision).

3. Must not have a record of substandard work. This can be determined by communicating with the State licensing authority.

Point
Range

II. Technical Criteria

Those proposers who have met each of the criteria in section I above will be evaluated on the following criteria:

1. Responsiveness of the proposal in clearly stating an understanding of the work to be performed. (0-25)
 - a. Audit coverage. 0-15
 - b. Realistic time estimates of each major segment of the work plan and the estimated number of hours for each staff level including consultants assigned. 0-10
 2. Technical experience of the firm. (0-25)
 - a. Auditing of the type under consideration. 0-15
 - b. Auditing local governments. 0-5
 - c. Auditing similar entities. 0-5
 3. Qualifications of staff, including consultants, to be assigned to the audit. Education, including continuing education courses taken during the past three years, position in the firm, and years and types of experience will be considered. This will be determined from the resumes submitted. (0-20)
 - a. Qualifications of the audit team. 0-15
 - b. Supervision to be exercised over the audit team by the firm's management. 0-5
 4. Size and structure of the firm. 0-5
- Total technical points. 0-75

Point
Range

III. Cost Criteria

1. Cost of the Audit.

0-25

Maximum Points.

100