

STATE OF UTAH

LEGAL COMPLIANCE AUDIT GUIDE

Reference: APP C-4
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Subject: Rules R123-5 – Audit Requirements for Audits of Political Subdivisions and Nonprofit Organizations

R123-5-1. Authority.

1. As required by Section 51-2a-301, this rule provides the guidelines, qualifications criteria, and procurement procedures for audits required to be made by Section 51-2a-201.

R123-5-2. Definitions.

1. "Auditor" means a certified public accountant licensed to conduct audits in the state and includes any certified public accounting firm as defined by Section 58-26a-102.
2. "Political subdivision" means all cities, counties, school districts, special districts, interlocal organizations, and any other entity established by a local governmental unit that receives tax exempt status for bonding or taxing purposes.
3. "Nonprofit organization" means any corporation created under Chapter 16-6a.

R123-5-3. Audit Standards and Requirements.

1. The audits of all entities required to have an audit made by Section 51-2a-201 shall be performed in accordance with Government Auditing Standards most recently published and issued by the Comptroller General of the United States.
2. The State Auditor shall adopt and maintain a legal compliance audit guide containing those fiscal laws and compliance requirements for state funds distributed to, and expended by, political subdivisions and non-profit organizations. This legal compliance audit guide may specify:
 - a. which grants and programs shall be considered major grants, and the compliance requirements which must be tested by the auditor,
 - b. the general compliance requirements applicable to all political subdivisions, and the audit requirements applicable to general compliance requirements,
 - c. the format for the auditor's statement expressing positive assurance with state fiscal laws identified by the State Auditor, and
 - d. those items related to internal controls and other financial issues which shall be included in the auditor's letter to management that must be filed with the audited financial statements.
3. The audits of all entities required to have an audit made by Section 51-2a-201 shall be performed in accordance with the legal compliance audit guide maintained by the State Auditor.

R123-5-4. Audit Procurement.

The decision to retain an entity's auditor rests with the governing body of the entity. However, the auditor performing the audit must meet the peer review and continuing education requirements of Government Auditing Standards issued by the Comptroller General of the United States. If the governing body rebids the audit of its financial statements, it shall comply with the following audit procurement requirements:

- a. Proposals will be obtained from any interested and qualified certified public accountant licensed to perform audits in the state, which may include the auditor currently performing the entity's

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- audit. Notice may be given to potential auditors either through invitation or by notice published in a newspaper of general circulation. To promote competition it is recommended that at least three auditors be invited to participate in bidding for the audit.
- b. The entity shall distribute a "request for proposal" to all auditors who meet the qualification criteria set by the procuring organization interested in bidding for the audit. As a minimum, the request for proposal shall contain the following:
- (i) the name and address of the entity requesting the audit and its designated contact person,
 - (ii) the entity to be audited, the scope of services to be provided, and specific reports, etc. to be delivered,
 - (iii) the period to be audited,
 - (iv) the format in which the proposals should be prepared,
 - (v) the date and time proposals are due, and
 - (vi) the criteria to be used in evaluating the bid.
- c. The entity may select the auditor or audit firm that the governing body desires to perform its audit and may reject any bid.

R123-5-5. Responsibility for Audit Quality.

1. The governing body of each political subdivision is responsible to ensure that the political subdivision obtains a quality audit of its financial records.
2. The governing body may appoint an audit committee with the responsibility of making recommendations to the governing body for selection of an auditor, ensuring that the auditor meets qualification requirements, and ensuring that the auditor complies with professional standards.
3. If the governing body appoints a separate audit committee, then the governing body shall review the recommendations of the audit committee and make the selection of the auditor.
4. The audit committee will report its assessment of the auditor's compliance with professional standards to the governing body.
5. The auditor shall report the results of the audit to the governing body.
6. The governing body shall respond to the specific recommendations included in the auditor's letter to management. This response shall be remitted with the audited financial statements to the state auditor.