
AGENDA ITEM: Completion of Compliance Questionnaires in Accordance with AICPA Attestation Standards

Background – Annual Audits and Audit Documents

A.R.S. §15-914 requires charter schools to have annual audits conducted in accordance with *Government Auditing Standards* by an independent certified public accountant. The applicable compliance questionnaire(s) must be completed by the audit firm and submitted as part of the annual audit. The State reimburses charters for audit fees incurred.

Arizona Administrative Code R7-5-501 requires that by July 1st of each year, the Board make available to the public written audit guidelines that provide general guidance on charter school audit requirements, including the deadline for submitting the completed audit to the Board and information that must be included for the audit to be deemed complete. Pursuant to Board rule, the fiscal year 2012 audit documents must be released by July 1, 2012. The audit documents include the audit guidelines, Legal Compliance Questionnaire, Uniform System of Financial Records for Charter Schools (USFRCS) Compliance Questionnaire, and Procurement Compliance Questionnaire. Currently, each compliance questionnaire must be completed by the audit firm following prescribed minimum standards set by the Board. The compliance questionnaire is also signed by the audit firm to indicate that it was completed in accordance with these minimum standards.

Proposed Substantive Change – FY2012 Audit Documents

Staff has identified concerns regarding the quality of charter school audits submitted to the Board. Earlier this month, staff met with representatives of four CPA firms to discuss means of raising charter school audit quality. One suggestion made during the meeting was to have the Board seek authority to suspend and/or debar audit firms that have a record of substandard audits. Another suggestion involved requiring the Board's compliance questionnaires be completed in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

At this time, staff is recommending that beginning with the fiscal year 2012 audit cycle, the Board's audit documents be revised to require completion of the compliance questionnaires in accordance with AICPA attestation standards. Currently, staff relies on the Arizona State Board of Accountancy (ASBA) to determine substandard work by CPA firms. ASBA has informed staff that the compliance questionnaires as previously written would be difficult to regulate because it is unclear which standards should be followed. By defining the standards as the AICPA attestation standards, the ambiguity would be eliminated.

Potential Impact on Audit Fee – Requiring audit firms to complete the compliance questionnaires in accordance with AICPA attestation standards is expected to have a nominal impact on the audit fee since the Board's minimum standards, which will serve as the "agreed upon procedures", are not changing. This change will require each submitted compliance questionnaire to include a standard "agreed upon procedures" report issued by the audit firm.

Subcommittee Options

Option 1: The Subcommittee may decide to take no action at this time.

Option 2: The Subcommittee may recommend approval of this change to the full Board. Staff recommends the following language for consideration: I move to recommend to the full Board requiring that the Legal Compliance Questionnaire, USFRCS Compliance Questionnaire, and Procurement Compliance Questionnaire each be completed in accordance with attestation standards established by the American Institute of Certified Public Accountants. Further, I direct staff to make the revisions necessary to incorporate this requirement into the fiscal year 2012 audit documents that will be presented to the full Board at its June 11th meeting.