

Legislative Analysis



TREASURY AUDITS: DISCLOSURE OF WORK PAPERS; AUDIT STANDARDS

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House Bill 4291 (Substitute H-1, Draft 1)

Sponsor: Rep. Jeff Farrington

Committee: Tax Policy

Complete to 4-23-13

A SUMMARY OF HOUSE BILL 4291 (PROPOSED H-1 SUBSTITUTE)

House Bill 4291 (H-1) would amend the Revenue Act (1941 PA 122) to require the Department of Treasury to provide a copy of the complete audit work papers and audit report findings upon a request from the person subject to the audit by the department (or its agents) or from a person whose books, records, and papers have been examined by the department.¹

The bill further provides that any audit performed by the department (or its agents) would have to be performed in accordance with auditing standards that include, but are not limited to, standards on confidentiality, technical training, independence, due professional care, planning, supervision, understanding of the audited entity, audit evidence and documentation, and standards of reporting.

The Department of Treasury would have to promulgate administrative rules on its audit standards within one year from the bill's effective date. Finally the bill would require that any audit sampling used in the performance of an audit by the department would have to be performed in accordance with the department's sampling manual.

FISCAL IMPACT:

House Bill 4291 would increase certain administrative costs within the Department of Treasury. The provision requiring the department to provide a complete copy of the audit work papers would increase costs to the department by an indeterminate amount. Additionally, the requirement that the department promulgate rules would increase

¹Audit "work papers", also referred to as "audit documentation" is defined in the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard No. 3 as "the written record of the basis for the auditor's conclusions that provides the support for the auditor's representations, whether those representations are contained in the auditor's report or otherwise. Audit documentation also facilitates the planning, performance, and supervision of the [audit] engagement, and is the basis for the review of the quality of the work because it provides the reviewer with written documentation of the evidence supporting the auditor's significant conclusions. Among other things, audit documentation includes records of the planning and performance of the work, the procedures performed, evidence obtained, and conclusions reached by the auditor."

See, http://pcaobus.org/Standards/Auditing/Pages/Auditing_Standard_3.aspx. See, also, the audit documentation standards of the American Institute of Certified Public Accountants (AICPA), Statement on Auditing Standards (SAS) No. 103, <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AU-00339.pdf>.

administrative costs for the department. Any cost increases under the provision of the bill would be absorbed under current appropriation levels.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.