IRS

Part 1. Organization, Finance, and Management

Chapter 35. Financial Accounting

Section 14. IRS Annual Financial Statement Audit

1.35.14 IRS Annual Financial Statement Audit

Manual Transmittal

January 13, 2015

Purpose

(1) This transmits new IRM 1.35.14, Financial Accounting, *Internal Revenue Service Annual Financial Statement Audit*.

Material Changes

(1) This IRM provides an overview of the IRS Annual Financial Statement Audit.

Effect on Other Documents

This supersedes IRM 1.34.3, dated August 28, 2009.

Audience

All Divisions and Functions.

Effective Date

(01-13-2015)

Robin L. Canady
Chief Financial Officer

1.35.14.1 (01-13-2015)
Overview

1. This IRM contains an overview of the annual audit of the IRS financial statements to provide Business Units (BUs) with a general understanding of the process.
2. It outlines the BUs responsibilities related to the process and their involvement in developing, managing, and closing planned corrective actions (PCAs) that will result in the closure of Government Accountability Office (GAO) audit recommendations.
3. The Associate Chief Financial Officer for Financial Management, Office of Unpaid Assessments and Audit Oversight, develops and maintains this IRM.

1.35.14.2 (01-13-2015)
Background

1. In accordance with the authority granted by the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, GAO annually audits the IRS financial statements to determine whether (1) the financial statements are fairly presented, and (2) IRS management maintained effective internal control over financial reporting. GAO also tests IRS compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. The IRS FY 1992 financial statements were the first to be audited by GAO.
2. The effect of the IRS Financial Statement Audit extends far beyond the immediate agency. IRS financial statements roll up to the Department of the Treasury (Treasury) financial statements, and Treasury's financial statements roll up to the Government-wide Consolidated Financial Statements. An unfavorable audit opinion on the IRS financial statements impairs GAO's ability to place reliance on the Treasury and Government-wide financial statements and render an unmodified audit opinion for the Federal Government as a whole.
3. GAO also reports annually on the status of new internal financial management audit (FMA) and/or information security (IS) control weaknesses and/or deficiencies identified during their financial statement audit and provides updates on IRS efforts toward previously reported GAO recommendations in the (1) *Management Report: Improvements are Needed to Enhance IRS Internal Controls,* and (2) *Information Security: IRS Needs to Address Control Weaknesses That Place Financial & Taxpayer Data at Risk*.
4. Obtaining an unmodified audit opinion helps the IRS to prove to both Congress and the American people that the IRS is a good steward of public funds. An unmodified audit opinion also provides assurance to the American taxpayer that the IRS is able to effectively plan and execute its strategic priorities (i.e., provide top-quality service by helping taxpayers understand and meet their tax responsibilities and enforce the law with integrity and fairness to all).

1.35.14.3 (01-13-2015)
Authorities

1. The authorities for this IRM include:

A. Chief Financial Officers Act of 1990 (Pub. L. No. 101-576).

B. The Federal Managers' Financial Integrity Act (FMFIA) of 1982, also known as the Integrity Act (Pub. L. No. 97-255).

C. The Federal Financial Management Improvement Act of 1996 (FFMIA) (Pub. L. No. 104-208).

D. OMB Circular No. A-123*, Management's Responsibility for Internal Control.*

E. The Government Management Reform Act of 1994 (GMRA) (Pub. L. No. 103-356).

F. 31 USC 720: Agency Reports.

G. AICPA Statement on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification.

H. AICPA AU-C Section 210, Terms of Engagement, paragraph .A23 - Form and Content of the Audit Engagement Letter.

I. AICPA AU-C Section 240, Considering Financial Fraud in Financial Statement Audits.

J. AICPA AU-C Section 315, Identifying and Assessing Risks of Misstatement.

K. 31 USC 3512: Executive Agency Accounting and Other Financial Management Reports and Plans.

L. Standards for Internal Control In the Federal Government (GAO/AIMD-00-21.3.1), dated November 1999.

M. OMB Circular No. A-136, *Financial Reporting Requirements*.

N. Reports Consolidation Act of 2000 (Pub. L. No. 106-531).

1.35.14.4 (01-13-2015)
Definitions

1. In this IRM, the terms below have the following meanings:

A. **Audit Inquiry Form** -- An official request from GAO for clarification or additional information.

B. **Audit Opinion** -- A professional opinion offered by a qualified internal or external auditor at the close of an audit of financial records. The opinion describes the processes used during auditing, the standards used by the auditor, and other relevant information. It indicates whether or not the auditor believes that the financial records inspected support the financial statements.

C. **Audit Recommendation** -- The auditor's prescribed course of action to address issues that are not specified in the audit opinion, but have been identified by the auditor as areas needing improvement (usually as a result of concerns around internal control).

D. **Cycle Memorandum** -- A document utilized by GAO during the audit planning phase that details the understanding of processes and procedures in relation to transaction flows and related internal controls in key audit areas (also known as 'cycles').

E. **Internal Control**-- A process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.

F. **Internal Control Testing** -- A process utilized by the auditors to assess whether internal controls are properly designed, placed in operation, and operating effectively. These tests are conducted on a sample basis.

G. **Material Weakness** -- A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

H. **Matter for Further Consideration** -- An official notification from GAO that identifies either an instance of non-conformance with internal control standards, IRM, standard operating procedures, or other control guidance (internal control); a discrepancy in recorded dollar amounts (substantive); unavailability of documentary support (missing documentation); or an incidence of non-compliance with laws and regulations (compliance).

I. **Prepared by Client Listing** -- A list of deliverables (i.e., policies, procedures, work papers, reports, data extracts, or other documentation) to be provided to the auditors during the course of field work.

J. **Significant Deficiency** -- A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

K. **Site Visit** -- A planned trip by GAO to an IRS location in order to conduct walk-throughs, make observations, or conduct field testing.

L. **Substantive Testing** -- A process utilized by the auditors to assess the completeness, validity, and/or accuracy of account balances and underlying classes of transactions. These tests are conducted on a sample basis.

1.35.14.5 (01-13-2015)
Acronyms

1. The chart below describes the acronyms that are referenced throughout this IRM.

Acronym	Description
AICPA	American Institute of Certified Public Accountants
AIF	Audit Inquiry Form
AU	Audit Standard Identifier
FFMIA	Federal Financial Management Improvement Act
FMA	Financial Management Audit
FMFIA	Federal Managers' Financial Integrity Act
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
IS	Information Security
JAMES	Joint Audit Management Enterprise System
JCT	Joint Committee on Taxation
MD&A	Management's Discussion & Analysis
MFC	Matter for Further Consideration
PBC	Prepared by Client
PCA	Planned Corrective Action

SAS	Statements on Auditing Standards
Treasury	Department of the Treasury

1.35.14.6 (01-13-2015) Forms

1. The following chart contains the form that is referenced throughout this IRM.

Form Number	Title
Form 13872	Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM Reports

1.35.14.7 (01-13-2015) Responsibilities

1. This section lists the responsibilities for:
   - A. Commissioner.
   - B. Chief Financial Officer (CFO).
   - C. Associate Chief Financial Officer for Financial Management (ACFO-FM).
   - D. Associate Chief Financial Officer for Financial Management Audit Team.
   - E. Associate Chief Financial Officer for Corporate Planning and Internal Control (ACFO-CPIC).
   - F. Associate Chief Financial Officer for Corporate Planning and Internal Control A-123 Section.
   - G. Chief Technology Officer (CTO).
   - H. Information Security Audit Team.
   - I. Chief Counsel.
   - J. Director, Office of Legislative Affairs.
   - K. All Business Units.

1.35.14.7.1 (10-30-2012) Commissioner of Internal Revenue

1. The Commissioner is the key stakeholder of the annual GAO audit of the IRS Financial Statements and in ensuring the preparation and fair presentation of the financial statements in accordance with the U.S. generally accepted accounting principles; and maintaining, evaluating the effectiveness of, and providing assertion on the effectiveness of internal control over financial reporting.
2. The Commissioner is responsible for:
   - A. Concurring with the Audit Engagement Letter.
   - B. Attesting to the Management Representation Letter.
   - C. Responding to the Draft Audit, Management, and Information Security Control Reports.
   - D. Issuing the 60-Day Management and Information Security Report responses to the Congressional Committee Leadership.
   - E. Issuing Management's Report on Internal Control over Financial Reporting.

1.35.14.7.2 (01-13-2015) Chief Financial Officer

1. The CFO is responsible for:
   - A. Facilitating the overall financial statement audit for the IRS.
   - B. Ensuring appropriate funding is available to reimburse GAO for the expense of auditing the IRS financial statements.
   - C. Issuing the Open Recommendation Update request.
   - D. Attesting to the Management Representation Letter to GAO.
   - E. Signing the Management's Report on Internal Control over Financial Reporting.

1.35.14.7.3 (01-13-2015) Associate Chief Financial Officer for Financial Management

1. The ACFO-FM is responsible for:
   - A. Serving as the primary point of contact for the Administrative and Custodial sub-components of the audit.
   - B. Coordinating BU updates to and/or development of revised corrective action plans for prior year(s) FMA open recommendations.
   - C. Developing/preparing and delivering the prior year(s) FMA Open Recommendation Update to GAO.
   - D. Facilitating the audit opening and exit conferences between GAO and IRS senior management.
   - E. Conducting the IRS/GAO Administrative and Custodial status meetings.
   - F. Updating and/or securing BU/GAO agreement to the Administrative and Custodial PBC listings, as appropriate.
   - G. Monitoring the timely delivery of Administrative and Custodial PBC listing deliverables.
   - H. Coordinating and responding to GAO on all FMA Matter for Further Consideration (MFC) responses.
   - I. Coordinating the annual Fraud Risk Factors meeting between GAO and IRS senior executives.

J. Managing the GAO Interagency Agreement related to the financial audit.

K. Coordinating and delivering the Engagement Letter response to GAO.

L. Developing/preparing and delivering the financial statements and related notes to GAO.

M. Coordinating and delivering the Management Representation Letter response to GAO.

N. Issuing the request for the Legal Representation response to Chief Counsel.

O. Developing/preparing the Draft Audit Report response to GAO.

P. Facilitating BU review of the Draft Management Report.

Q. Coordinating BU development of PCAs for new recommendations identified in the Draft Management Report.

R. Developing/preparing the Draft Management Report response.

S. Coordinating BU updates to new recommendations issued in the Management Report for 60-Day Congressional Committee Leadership.

T. Developing/preparing the 60-Day Management Report response to the Congressional Committee Leadership.

U. Providing ACFO-CPIC with the 60-Day Management Report recommendation PCAs for input into the Joint Audit Management Enterprise System (JAMES).

V. Providing financial/audit information and support to other organizations and offices.

1.35.14.7.4 (01-13-2015)
Associate Chief Financial Officer for Financial Management - Audit Team

1. The ACFO-FM Audit Team is responsible for supporting an effective, efficient, and responsive annual financial statement audit process on behalf of the IRS related to the overall Financial Statement audit, including facilitating the audit opening and exit conferences, coordinating the annual Fraud Risk Factor meeting, as well as coordinating the Engagement Letter response on behalf of the Commissioner.
2. The ACFO-FM Audit Team is also responsible for coordinating activities for the Administrative and Custodial sub-components of the audit. Key activities include managing audit deliverables, facilitating audit-related meetings, preparing official responses to GAO reports, ensuring corrective actions are developed to address audit findings, and reporting to management on the status of the audit.

1.35.14.7.5 (01-13-2015)
Associate Chief Financial Officer for Corporate Planning and Internal Control

1. The ACFO-CPIC organization is responsible for:

   A. Serving as the primary point of contact for the Internal Control sub-component of the audit.

   B. Updating and/or securing BU/GAO agreement to the Internal Control PBC listing, as appropriate.

   C. Monitoring the timely delivery of the Internal Control PBC listing deliverables.

   D. Developing and delivering Management's Discussion & Analysis (MD&A) to GAO.

   E. Entering new recommendations and BU PCAs into JAMES.

   F. Validating financial statement audit PCA closure in JAMES (based on Form 13872, *Planned Corrective Action (PCA) Status Update for TIGTA/GAO/MW/SD/TAS/REM Reports*, and supporting documentation provided by BUs).

   G. Developing/preparing and delivering Management's Report on Internal Control over Financial Reporting.

1.35.14.7.6 (01-13-2015)
Associate Chief Financial Officer for Corporate Planning and Internal Control - A-123 Section

1. The ACFO-CPIC A-123 section oversees and monitors management assessments of the internal controls over financial reporting to verify compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*. In this role, they are responsible for:

   A. Establishing program governance and defining scope of review.

   B. Assessing and reporting on the internal controls over financial reporting.
2. The ACFO-CPIC A-123 section is also responsible for coordinating activities for the Internal Control sub-component of the audit. Key activities include managing audit deliverables, facilitating audit-related meetings, preparing official responses to GAO reports, ensuring corrective actions are developed to address audit findings, and reporting to management on the status of the audit.

1.35.14.7.7 (01-13-2015)
Chief Technology Officer

1. The CTO is responsible for:

   A. Serving as the primary point of contact for the IS component of the audit.

   B. Monitoring the timely delivery of the IS PBC listing deliverables.

   C. Coordinating and responding to GAO on all IS MFC responses.

   D. Coordinating BU updates to and/or development of revised corrective action plans for prior year(s) IS open recommendations.

   E. Developing/preparing and delivering the prior year(s) IS Open Recommendations Update to GAO.

   F. Coordinating BU development of PCAs for new recommendations identified in the Information Security Control Report.

   G. Developing/preparing the Draft Information Security Control Report response.

   H. Developing/preparing the 60-Day Information Security Control Report response to Congressional Committee Leadership.

   I. Providing ACFO-CPIC with the 60-Day Information Security Control Report recommendation PCAs for input to JAMES.

1.35.14.7.8 (01-13-2015)
Information Security Audit Team

1. The IS Audit Team is responsible for coordinating activities for the IS component of the audit. Key activities include managing audit deliverables, facilitating audit-related meetings, preparing official responses to GAO reports, ensuring corrective actions are developed to address audit findings, and reporting to management the status of the audit.

1.35.14.7.9 (01-13-2015)
Chief Counsel

1. The Chief Counsel is responsible for developing/preparing and delivering the Legal Representation Letter to GAO.

1.35.14.7.10 (10-30-2012)
Director, Office of Legislative Affairs

1. The Director, Office of Legislative Affairs is responsible for:

    A. Receiving and disseminating the Audit Notification Letter, as appropriate.

    B. Receiving and disseminating the Audit Engagement Letter, as appropriate.

    C. Receiving and disseminating the Draft Audit Report, as appropriate.

    D. Delivering the Draft Audit Report response to GAO after securing response from the Commissioner.

    E. Receiving and disseminating the Draft Management Report, as appropriate.

    F. Delivering the Draft Management Report response to GAO after securing response from the Commissioner.

    G. Receiving and disseminating the Draft Information Security Center Report, as appropriate.

    H. Delivering the Draft Information Security Control Report response to GAO after securing response from the Commissioner.

    I. Delivering the 60-Day Management Report response to Congressional Committee Leadership after securing response from the Commissioner.

    J. Delivering the 60-Day Information Security Control Report response to Congressional Committee Leadership after securing response from the Commissioner.

1.35.14.7.11 (01-13-2015)
All Business Units

1. All BUs are responsible for:

    A. Ensuring adequate internal controls related to processes and procedures are identified, developed, implemented and working effectively, thereby ensuring accuracy and reliability in accounting and operating data and/or transaction flows.

    B. Establishing audit coordinators, as appropriate.

    C. Providing input into the annual draft PBC roll-forward processes.

    D. Providing input into the annual cycle memorandum update processes, as appropriate.

    E. Attending audit meetings and conference calls, as appropriate.

    F. Facilitating/participating in GAO walk-throughs, as appropriate.

    G. Facilitating/participating in GAO site visits, as appropriate.

    H. Collaborating with other BUs on audit-related activities that cross functional lines.

    I. Providing support for all GAO testing, as appropriate.

    J. Responding to GAO on all BU-relevant questions and AIFs.

    K. Responding to the ACFO-FM or CTO, as appropriate, on all BU-relevant MFC responses.

    L. Establishing PCAs for MFC and/or GAO Audit Recommendations, as appropriate.

    M. Revising PCAs for MFC and/or GAO Audit Recommendations, as necessary.

    N. Collaborating with the ACFO-FM or CTO, as appropriate, in the establishment, and/or revision of MFC and/or GAO Audit Recommendation PCAs.

    O. Responding to all of the ACFO-FM, ACFO-CPIC, and CTO data calls related to the audit.

    P. Facilitating delivery of the PBC items, as appropriate.

    Q. Providing documentation and requesting ACFO-CPIC to validate closure of GAO Audit Recommendation PCAs in JAMES (based on Form 13872 and supporting documentation).

1.35.14.8 (10-30-2012)
Audit Components

1. The IRS Financial Statement Audit is comprised of 2 components: FMA and IS.

2. GAO issues two management reports, one addressing concerns and recommendations related to FMA, the other addressing concerns and recommendations related to IS.

1.35.14.8.1 (01-13-2015)
Financial Management Audit

1. The FMA is the component of the audit that focuses on IRS internal controls over its use of and accounting for its financial resources. The FMA is comprised of three sub-components: Administrative, Custodial, and Internal Control.

2. The ACFO-FM organization oversees the Administrative and Custodial sub-components and the ACFO-CPIC organization oversees the Internal Control sub-component.

1.35.14.8.1.1 (01-13-2015)
Administrative

1. The Administrative sub-component of the overall audit focuses on IRS use of its available financial resources (e.g., appropriations received and user fees) to implement its mission and strategic plans.

1.35.14.8.1.2 (01-13-2015)
Custodial

1. The custodial sub-component of the overall audit focuses on IRS accounting for and reporting primarily of taxes receivable as well as financial resources received from taxpayers, as reported on the Statement of Custodial Activity.

1.35.14.8.1.3 (01-13-2015)
Internal Control

1. The internal control sub-component of the overall audit focuses on IRS controls for ensuring the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

1.35.14.8.2 (01-13-2015)
Information Security

1. The IS component of the audit focuses on IRS internal controls over its key financial and tax processing systems, as well as information and interconnected networks to ensure the confidentiality, integrity, and availability of financial and sensitive taxpayer information.

2. The CTO organization oversees the IS component.

1.35.14.9 (01-13-2015)
Key Events/Products of the Financial Audit

1. During the financial audit process, several key events must occur and products must be developed by GAO and/or IRS. Each of these items will have unique requirements such as timeframes, participants, and signature/date requirements.

1.35.14.9.1 (01-13-2015)
Audit Notification Letter

1. Every winter, GAO issues an Audit Notification Letter to IRS providing official notice that the financial statement audit is beginning.

2. The letter provides the job assignment code and states that GAO has requested approval to access all records, files, and tax return information needed to complete the audit from the Joint Committee on Taxation (JCT). If, at the time of issuance, GAO has secured an approval letter from the JCT, the audit notification letter will reference, and the transmittal will include, the letter from the JCT.

3. The letter is sent to the IRS Office of Legislative Affairs who then disseminates it within the IRS on an as needed basis.

1.35.14.9.2 (01-13-2015)
Prepared By Client Listings

1. During the months of November through March, the ACFO-FM and the ACFO-CPIC update three lists of audit deliverables called the Administrative, Custodial, and Internal Control PBC listings. The two groups roll-forward the due dates and the descriptions from the prior year's PBC listings into the current audit year and, where applicable, get agreement from affected IRS BUs for the changes. Once the BUs agree, the two groups forward their draft listing(s) to GAO with all the changes highlighted and facilitate any meetings that may be needed to finalize the listing(s).

2. The ACFO-FM manages the Administrative and Custodial PBC updating process and the ACFO-CPIC manages the Internal Control PBC listing.

3. By the end of March, the ACFO-FM and the ACFO-CPIC finalize their PBC listing(s) for the Custodial, Administrative and Internal Control audit deliverables.

4. Updates to these listings can and do occur throughout the audit on an as-needed basis. All changes must be coordinated through the appropriate IRS subject matter expert, GAO cycle team member, and appropriate ACFO office.

5. For the IS component of the audit, the CTO organization creates a list of documents and files as they are requested by GAO. This list is referred to as the IS PBC List.

1.35.14.9.3 (01-13-2015)
Audit Engagement Letter

1. Every spring, GAO issues an Audit Engagement Letter to the IRS providing written objectives for the audit of the IRS financial statements.

2. The Audit Engagement Letter is sent to the IRS Office of Legislative Affairs who then disseminates it within the IRS on an as needed basis.

3. IRS issues a formal acknowledgement to GAO of the receipt of the Audit Engagement Letter and agreement to the terms of the engagement outlined therein (as prescribed by SAS #122).

1.35.14.9.4 (01-13-2015)
Audit Entrance Conference

1. Every spring, a formal Financial Statement Audit Entrance Conference is conducted by GAO with IRS senior executives to discuss the purpose and scope of the upcoming annual financial statement audit process.

1.35.14.9.5 (01-13-2015)
Program and Internal Control Walk-Throughs

1. Throughout the fiscal year, meetings, conference calls, and/or site visits are conducted by IRS subject matter experts for GAO to gain a basic understanding of how certain programs and/or controls are supposed to work (function/flow) within the IRS.

1.35.14.9.6 (01-13-2015)
Fraud Risk Factors Meeting

1. Every spring, the appropriate IRS senior executives meet with GAO in order for GAO to obtain an understanding of what actions, policies, procedures and controls IRS has established to mitigate the risk of fraud and the potential of material misstatements in the financial statements. The audit requirements specifically being addressed during this meeting are AU-C 240 (risk of fraud) and AU-C 315 (material misstatement).

1.35.14.9.7 (01-13-2015)
Testing -- Internal Control and Substantive

1. GAO performs internal control testing to determine whether IRS internal controls are properly designed and effectively implemented. They test various IRS financial reporting and Information Technology controls which include safeguarding of assets, segregation of duties, budget, compliance and operation controls. GAO then evaluates the results of its internal control testing to determine the extent of substantive control testing that must be performed. There is a direct relationship between the number of errors allowed

during internal control testing for an audit area (e.g., reimbursable revenue transactions, procurement disbursements) and the sample size of the subsequent substantive testing. For example, if GAO identifies a large number of errors during internal control testing for an audit area, the sample size of the substantive transactions to be tested for that audit area would be significant.

2. GAO performs substantive testing to obtain evidence that provides reasonable assurance about whether the IRS financial statements are free of material misstatements. This involves testing IRS financial (appropriation and taxpayer-related) transactions and account balances to enable GAO to issue its Audit Report on IRS financial statements, internal controls, and IRS compliance with significant provisions of laws and regulations.

1.35.14.9.8 (01-13-2015)
Legal Representation Letter

1. In August or September, the ACFO-FM issues a data call to the IRS Chief Counsel requesting that Chief Counsel prepare a Legal Representation Letter response to GAO.
2. The verbiage for the request is provided by GAO and requires:
   A. Disclosing any instances of known violations of laws and regulations that may have a direct and material effect on the presentation of the financial statements.
   B. Providing information on pending or threatened litigation, claims, or assessments above a specified threshold.
   C. Providing information on unasserted claims and assessments that are probable of assertion and have a reasonable possibility of an unfavorable outcome for the IRS.
3. GAO uses the letter to help ensure that any contingencies for litigations, claims, and assessments are properly disclosed in the IRS financial statements.
4. In early November, the Associate Chief Counsel (General Legal Services) issues the Legal Representation Letter to GAO.

1.35.14.9.9 (01-13-2015)
Delivery of Management's Discussion & Analysis

1. In October, IRS delivers the MD&A to GAO.
2. The MD&A summarizes the IRS organization, resources, performance, challenges, risks, and actions the IRS has identified to mitigate risks.
3. GAO incorporates the IRS MD&A into the Audit Report.

1.35.14.9.10 (01-13-2015)
Delivery of Financial Statements

1. In early November, IRS delivers the annual financial statements including the basic statements and related footnotes, required supplementary information and other information to GAO.
2. The financial statements report the financial position and results of operations of the IRS, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*. The integrity of the information included in the financial statements is the responsibility of IRS management.
3. The annual IRS financial statements include:
   A. Management's Discussion and Analysis.
   B. Basic Statements and Related Notes.
   C. Required Supplementary Information.
   D. Other Information.
4. The IRS basic financial statements include:
   A. Balance Sheet.
   B. Statement of Net Cost.
   C. Statement of Changes in Net Position.
   D. Statement of Budgetary Resources.
   E. Statement of Custodial Activity.
   F. Related Note Disclosures.
5. GAO incorporates the IRS financial statements into the Audit Report.

1.35.14.9.11 (01-13-2015)
Management Representation Letter Issued

1. In early November, IRS issues a written confirmation to GAO that representations made to the auditors during the audit regarding the completeness and reliability of audit data are accurate as of the date the letter.
2. The management representations detailed in the letter cover a broad range of audit areas including: Financial Statements, Required Supplementary Information, Other Information, Intra-governmental Activities, Internal Control, Fraud, Compliance of Financial Management Systems with FFMIA Requirements, and Budgetary and Restricted Funds.

1.35.14.9.12 (01-13-2015)
Exit Conference

1. In late October, GAO meets with IRS senior executives in order to convey to IRS management:
   A. Overarching issues identified during the audit.
   B. Remaining audit timeline.
   C. Overall message the audit opinion will be documenting.

1.35.14.9.13 (01-13-2015)
Financial Statements and Audit Opinion Issued

1. In November, at the completion of the IRS financial statement audit, GAO issues a report titled: *IRS's Fiscal Years 20XX and 20XX Financial Statements* (aka, Audit Report or Blue Book).

2. This report contains the:

   A. IRS financial statements, notes, required supplementary information, and other information.

   B. MD&A.

   C. Auditor's opinion on the fair presentation of the IRS financial statements, the effectiveness of IRS internal control over financial reporting, IRS compliance with laws and regulations, and IRS financial system(s) compliance with FFMIA requirements.
   Auditors issue one of four opinions:
   (i) Unmodified -- Financial Statements, including the Accompanying Notes, present fairly, in all material respects, the financial information.
   (ii) Qualified -- Except for the circumstances specified in the report, the statements present fairly the financial information.
   (iii) Adverse -- The auditor disagrees with the application of certain accounting principles, and the financial statements do not present fairly the financial information.
   (iv) Disclaimer -- The auditor could not obtain enough evidential matter to express an audit opinion.

   D. Auditor's statement of any material weaknesses, significant deficiencies, and/or management challenges.

1.35.14.9.14 (01-13-2015)
Management Report

1. In late spring, GAO provides the IRS with an exposure draft (restricted use only) of the upcoming Management Report for review and comment. The draft report identifies new deficiencies in internal control that GAO observed during the latest audit of the IRS financial statements and recommendations for action. While these deficiencies are not severe enough to be considered material weaknesses or significant deficiencies, they nevertheless warrant IRS management's attention.

2. The IRS is provided approximately three to four weeks to formally respond to the draft report. The response includes a letter from the Commissioner and an enclosure that summarizes each new recommendation, states whether IRS agrees with each recommendation, and identifies PCAs and projected completion dates for each.

3. In mid-summer, GAO issues the official Management Report. The first section of the report discusses GAO's identification of the new deficiencies and development of recommendations and IRS identification of PCAs with projected completion dates. The second section is an enclosure that summarizes GAO's current assessment of IRS actions on open recommendations from prior fiscal years.

1.35.14.9.15 (01-13-2015)
60-Day Management Report Response

1. The IRS is required to send a Management Report response to key Congressional committee leadership within 60 days of GAO's issuance of the annual report.

2. The response is required by 31 U.S.C. Section 720 to update Congress on IRS efforts to address GAO's financial statement audit recommendations.

3. The response includes a letter from the Commissioner and an updated version of the Management Report enclosure sent to GAO.

1.35.14.9.16 (01-13-2015)
Information Security Control Report

1. In February, GAO provides the IRS with an exposure draft (restricted use only) of the upcoming Information Security Control Report for review and comment. The draft report identifies new deficiencies in internal control that GAO observed during the latest audit of the IRS financial statements, and recommendations for action. While these deficiencies are not severe enough to be considered material weaknesses or significant deficiencies, they nevertheless warrant IRS management's attention.

2. The IRS is provided approximately three to four weeks to formally respond to the draft report.

3. In March, GAO issues the official Information Security Control Report. The report discusses GAO's identification of the new deficiencies and includes an enclosure that summarizes GAO's current assessment of IRS actions on open recommendations from prior fiscal years.

1.35.14.9.17 (01-13-2015)
60-Day Information Security Control Report Response

1. The IRS is required to send an Information Security Control Report response to key Congressional committee leadership within 60 days of GAO's issuance of the Information Security Control Report.

2. The response is required by 31 U.S.C. Section 720 to update Congress on IRS efforts to address GAO's financial statement audit recommendations.

3. The response includes a letter from the Commissioner and an enclosure that summarizes each new recommendation, states whether IRS agrees with each recommendation, and identifies PCAs and projected completion dates for each.

1.35.14.9.18 (01-13-2015)
Joint Audit Management Enterprise System Reporting

1. Shortly after the issuance of the 60-Day Management Report and 60-Day Information Security Control Report responses, the ACFO-FM Audit Team provides CPIC with documentation that identifies new recommendations, and identifies PCAs, projected due dates, and responsible parties.

2. PCAs are linked in JAMES to the specific report that generated the recommendation.

3. BUs are responsible for providing timely updates to JAMES regarding closure of PCAs.

1.35.14.9.19 (01-13-2015)
Open Audit Recommendation Update (Information Security Control Report)

1. Every fall, GAO provides the CTO with a listing of all open financial statement recommendations identified in the Information Security Control Report and requests an official status of each.

2. The CTO distributes the listing to the affected BUs requesting status updates for each. For those actions being identified by the BUs as closed, relevant back up documentation must also be supplied.

3. In January, IRS provides GAO with an updated Status of Open Recommendations response. In addition to the response, backup documentation is supplied for all recommendations identified as closed by the IRS.

4. GAO utilizes the responses and related backup documentation, in conjunction with its audit testing results, to assess which recommendations it will close.

5. GAO publishes its assessment of IRS progress in an enclosure to the next Information Security Control Report.

1.35.14.9.20 (01-13-2015)
Open Audit Recommendation Update (Management Report)

1. Every fall, GAO provides the ACFO-FM with a listing of all open financial statement recommendations identified in the Management Report and requests an official status of each.
2. The ACFO-FM distributes the listing to the affected BUs requesting status updates for each. For those actions being identified by the BUs as closed, relevant backup documentation must also be supplied.
3. In January, IRS provides GAO with an updated Status of Open Recommendations response. In addition to the response, backup documentation is supplied for all recommendations identified as closed by the IRS.
4. GAO utilizes the responses and related backup documentation, in conjunction with its audit testing results, to assess which recommendations it will close.
5. GAO publishes its assessment of IRS progress in an enclosure to the next Management Report.

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