

***This letter represents a draft of an engagement letter as required under Chapter 1 of the HUD Audit Guide issued in April, 2011. It is nonauthoritative. Practitioners, should reviews these requirements and ensure that this letter meets these requirements for their circumstance.***

FIRM NAME

DATE

PROJECT NAME

PROJECT ADDRESS

PROJECT CITY, ST ZIP

We are pleased to confirm our understanding of the services we are to provide for PROJECT NAME for the year ended DATE. We will audit the balance sheet(s) of as of Year End, and the related statements of income, changes in partners' capital, and cash flows for the year, OR years then ended. Also, the supplementary financial information required by the Department of Housing and Urban Development's (HUD) Uniform Financial Reporting Standards for HUD Housing Programs will be subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and our auditor's report will provide an opinion on it in relation to the financial statements as a whole.

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements and for which our auditor's report will not provide an opinion or any assurance. (Such Items may include schedules of other assets, insurance, escrows or any other schedule not required to be submitted to REAC in the FASSUB submission and covered by the auditor's opinions.)<sup>1</sup>

1. Item 1
2. Item 2
3. Item 3

#### ***Non-Audit Services***<sup>2</sup>

As part of our engagement to opine on the financial statements and on compliance, you have also engaged us to perform the following nonaudit services.

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<sup>1</sup> Such language is required by SAS 118 whenever the audit report includes other information not derived from financial statement data or data defined as required supplemental data (RSI)

<sup>2</sup> AHACPA believes that a list of the nonaudit services to be provided is preferred especially as we prepare for the adoption of the 2011 Yellowbook requirements on independence. AHACPA also believes that a separation of fees for those services will assist the auditor in overcoming threats to independence.

1. You have asked us to assist in the preparation of the financial statements, related notes and other supplemental information.
2. We will prepare the trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information into a working trial balance based on management's chart of accounts.
3. You have engaged us to complete the FASSUB templates with your financial information prior to its electronic submission to HUD.
4. You have engaged us to assist in preparing depreciation schedules related to the project's assets.
5. We will also prepare the federal and state tax returns for the YEAR ended DATE.

Fees for these services may be billed as described in this letter as described below.

### **AUDIT OBJECTIVE**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the first paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

Internal control related to the preparation of the financial statements as well as internal control over the project's compliance with laws, regulations, and the provisions of contracts, or grant agreements, noncompliance with which could have a material effect on the financial statements in conformity with U.S. generally accepted auditing standards and in accordance with *Government Auditing Standards*.

Internal control related to compliance with laws, regulations, and the provisions of contracts, or grant agreements related to HUD-assisted programs that may have a direct and material effect on each HUD-assisted program in accordance with the *Consolidated Audit Guide for Audits of HUD Programs* (Guide) issued by HUD's Office of Inspector General.

The reporting described above is intended solely to assist us expressing our opinions on the financial statements and on compliance and not for the purpose of expressing an opinion on the internal control over the financial statements or over compliance. Further, the reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and HUD, and are not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the Guide. Our audit will include tests of the accounting records of PROJECT NAME and other procedures we consider necessary to enable us to express such opinions and render the required reports. If our opinion on the financial statements or on

compliance is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

## **MANAGEMENT RESPONSIBILITIES**

Management is responsible for the basic financial statements and all accompanying supplementary information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements. You are responsible for making all management decisions and performing all management functions relating to the financial statements, supplementary financial information, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter that you have reviewed and approved the financial statements, supplementary financial information, and related notes prior to their issuance and have accepted responsibility for them. Included in our engagement we will perform the nonaudit services, described above. You are required to designate an individual with suitable skill, knowledge, or experience to oversee the nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in partners' capital, and cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us, and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has the responsibility for program compliance, and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the **PROJECT NAME** involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud

affecting the **PROJECT NAME** received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements and grants. It is management's responsibility to follow up and take corrective action on reported audit findings and to prepare comments on audit resolution matters. The comments on audit resolution matters should be available for our review on **DATE**. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to **[present the supplementary information with the audited financial statements OR make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon].**<sup>3</sup>

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or studies related to the objectives discussed in the Audit Objective section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

Management is also responsible for assuring that the electronic submission of required annual financial statement, audit, and other financial information to HUD's Real Estate Assessment Center (REAC) is complete, accurate, and timely, in accordance with your regulatory and contractual obligations to HUD. Performance of the agreed-upon procedure required by HUD relating to the electronic submission of your financial information will be addressed in a separate letter and is subject to a separate fee.

In order to assist us in the completion of our audit, we will require that you provide us with the information, schedules or other information outlined in Attachment 1 to this letter. The attachment includes expected dates for these schedules to be delivered.<sup>4</sup>

The Guide allows that we have the responsibility to review any predecessor auditor's workpapers and to discuss any matters with them that may not have been adequately explained or documented in the audit documentation. Acceptance of this letter grants permission for this review.<sup>5</sup>

## **AUDIT PROCEDURES—GENERAL**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be

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<sup>3</sup> Disclosures of this nature are required by SAS 119 in relation to supplemental data to be included in the audited financial statements. Similar requirements should be included in the management representation letter.

<sup>4</sup> This is a new requirement of chapter one of the HUD Audit Guide

<sup>5</sup> This is a new requirement of chapter one of the HUD Audit Guide.

examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriations of assets, or (4) violations of laws or governmental regulations that are attributable to the PROJECT NAME or to acts by management or employees acting on behalf of the PROJECT NAME. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse. As required by the Guide, our audit will include tests of transactions and controls related to federal awards programs for compliance with applicable laws, regulations, and the provisions of contracts, or grant agreements, noncompliance with which could have a material effect on the financial statements.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention and of any material abuse that comes to our attention. We will include such matters in the reports required for a HUD audit. Under the Guide we are required to telephonically notify HUD OIG if we become aware of illegal acts or equity skimming (as defined in Appendix B to chapter 3 of the Guide) or fraud that has occurred or is likely to have occurred Acceptance of this engagement letter grants us permission to make any such contact to discuss the conditions noted. The existence of such items will be discussed with you to attempt to determine the true nature of the risk indicated or if a potential correction has occurred or may in the immediate future before contacting the HUD OIG.<sup>6</sup> Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include direct confirmation of cash, receivables, loan balances, and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

#### **AUDIT PROCEDURES—INTERNAL CONTROL**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and noncompliance and to design the nature, timing, and extent of further audit procedures. Tests of

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<sup>6</sup> This disclosure is a requirement of chapter one of the HUD Audit Guide. Although we have included suggested language, we believe auditors should review this language with their clients and make any appropriate adjustments.

controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and compliance and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements and on its compliance with specific requirements applicable to its major HUD-assisted programs. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Guide, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major HUD-assisted program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Guide.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Guide.

#### **AUDIT PROCEDURES—COMPLIANCE**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of PROJECT NAME'S compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Guide requires that we test and report on PROJECT NAME'S compliance with applicable HUD laws and regulations. Our procedures will consist of tests of transactions and other applicable procedures for the applicable compliance requirements that may have a direct and material effect on each HUD-assisted program as specified in the Guide. The purpose of these procedures will be to express an opinion on PROJECT NAME'S compliance with the specific requirements applicable to each of its major HUD-assisted programs and to report on its compliance with specific requirements applicable to nonmajor HUD-assisted programs. The procedures performed on the nonmajor programs will be substantially less in scope than an audit, the objective of which is the expression of an opinion on compliance. Accordingly, we will not express such an opinion.

The Guide requires that we also test and report on PROJECT NAME'S compliance with applicable Fair Housing and Non-Discrimination requirements. Our procedures will consist of applicable procedures specified in the Guide. The procedures performed will be substantially less in scope than an audit, the objective of which is the expression of an opinion on compliance. Accordingly, we will not express such an opinion.

## ENGAGEMENT ADMINISTRATION, FEES, AND OTHER

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements.

The audit documentation for this engagement is the property of **FIRM NAME** and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the Secretary of Housing and Urban Development, the HUD Inspector General, and the Government Accountability Office or their representatives, for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of **FIRM NAME** personnel. Furthermore, upon request, we may provide copies of selected audit documentation to HUD or the Government Accountability Office representatives. HUD and the Government Accountability Office may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of six years after the report release or for any additional period requested by HUD. If we are aware that HUD is contesting an audit finding, we will contact the **party(ies)** contesting the audit finding for guidance prior to destroying the audit documentation.

**Name of Engagement Partner** is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. We expect to begin our audit on approximately **DATE** and to complete your tax return(s) and issue our reports no later than **DATE**.

Our fees for these services will be based on the actual time spent at our standard hourly rates, plus travel and other out-of-pocket costs such as report production, word processing, postage, etc. Our

standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. In accordance with our firm policies, work may be suspended if your account becomes XX days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. Based on our preliminary estimates, the fees for the services described above should approximate the following:

Total Audit/Attest Services	\$xx,xxx
Non-audit Services	
Non-audit Service 1	xx,xxx
Non-audit Service 2	xx,xxx
Non-audit Service 3	<u>xx,xxx</u>
Total Non-audit Services	\$xx,xxx

Those estimates are based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 20XX peer review [report OR report and letter of comment] accompanies this letter.

We appreciate the opportunity to be of service to PROJECT NAME and believe this letter accurately summarizes the significant terms of our engagement. If you have questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

FIRM NAME

RESPONSE:

This letter correctly sets forth the understanding of PROJECT NAME .

Signature:

Title:

Date: