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Competitive Bidding for Audit Services to Governmental Agencies, Joint Statement

American Institute of Accountants. Committee on Governmental Accounting

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COMPETITIVE BIDDING FOR AUDIT SERVICES TO GOVERNMENTAL AGENCIES

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JOINT STATEMENT ON
COMPETITIVE BIDDING FOR AUDIT SERVICES TO GOVERNMENTAL AGENCIES
BY THE
COMMITTEE ON GOVERNMENTAL ACCOUNTING, AMERICAN INSTITUTE OF ACCOUNTANTS
AND THE
GENERAL COMMITTEE ON ACCOUNTING
MUNICIPAL FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA

Competitive bidding has long been associated with efficient administration of governmental organizations, for such procedures are the best known guarantee of obtaining the highest quality of commodities at the lowest price possible. In fact, competitive bidding has been so universally recognized that nearly all governmental agencies are compelled by law to obtain materials and supplies and to undertake public works projects through competitive bidding procedures.

To be effective, however, competitive bidding procedures must be applied to commodities that can be measured by exact specifications and standards; for example, a request for bids for an order for automobile tires would specify the grade of rubber, the type of thread to be used in the cord, the number of plies, the thickness of the tread, and so forth. The tires obtained from the successful bidder would be tested to ascertain that they met the required specifications. Similarly, the request for bids on a construction job would specify the exact type and grade of material that was to be used throughout. During the progress of construction, inspectors would check the material against the specifications and would also determine whether such material was being installed in accordance with acceptable standards.

The legislative bodies or other representatives of many governmental agencies frequently call for competitive bids when they are arranging for an audit. They fail to recognize the fact that the services which they are seeking are professional services and not a commodity.

This confusion of principle on the part of many legislative bodies is confined only to the services of auditors. They would never think of advertising for bids in order to hire appraisers in condemnation actions, or a special attorney to represent them in court, or an architect to draw plans and supervise construction of a building, or any type of special consultant other than an auditor.

Auditing services, like many other professional services, are of such a nature that it is impractical for them to be covered by rigid specifications. An accounting firm performing an audit should have as much latitude as it may find necessary to be assured that the records are in order and that the system of accounts is functioning properly. In spite of the obvious objections, some governmental organizations have selected auditors on the basis of competitive bidding. That the results of such engagements have usually been acceptable is a high tribute to the integrity of the members of the profession.

Many public officials are opposed to competitive bidding in the selection of an auditor but are forced to accept this program because of legal requirements. In many of these cases a legal opinion would disclose that the requirement to call for bids does not apply to professional services. To call for bids, except when required by statute, suggests the possibility that a governmental organization is trying to meet mandatory requirements for an audit at the lowest possible cost and with complete disregard for the results produced or the purposes of such audit.

It is also possible that representatives of governmental organizations are reluctant to choose one of several acceptable auditing firms and resort to the practice of calling

for competitive bids to avoid this responsibility. Such a procedure, however, opens the door to bids from firms or persons which might not be acceptable. The larger governmental units are likely to have several outstanding auditing firms available and these larger units might well make a joint appointment of several firms, with each firm handling some particular phase of the audit.

If you are contemplating having an audit of your governmental agency, select the most competent auditor in your community and familiarize yourself with Part 3 of the book of MUNICIPAL ACCOUNTING AND AUDITING, published by the National Committee on Governmental Accounting* which deals with municipal audit procedure. It contains a suggested basis of understanding between the governmental agency representative and the auditor and a suggested audit procedure to be followed.

Having arrived at a definite understanding with the auditor as to the scope of the audit, both parties understand what ground is to be covered, approximately how long it will take if no unforeseen problems are encountered, and the auditor is then in a position, if required, to state a ceiling above which his per diem charges will not go except for possible unforeseen problems.

* c/o Municipal Finance Officers Association, 1313 East 60th St., Chicago 37, Ill.

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M. F. O. A. Committee Assignment

1. Serve as the Association's chief advisory body on accounting matters.
2. Study all Association recommendations and all committee reports insofar as they concern accounting.
3. Assume responsibility for any general statement of accounting principles officially adopted by the Association.
4. Serve as a group of experts available to make constructive criticisms of the financial reports submitted to it for that purpose by individual members.
5. Examine current practices and changing problems to ascertain if new principles or new standards of practice are developing.
6. Promote into actual use the accounting standards and procedures already devised or approved by the Association.

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