**Section 230.362 Audit Engagement Agreement**

a) Each grantee and contractor is responsible for securing its own independent auditor.

b) Prior to the initiation of audit activity, the grantee and contractor will ensure the contract with the auditor is covered by an audit engagement agreement which, at a minimum, includes:

1) Scope of the audit.

2) Audit period.

3) Provision for an opinion on the financial statements in conformity with generally accepted government auditing standards, "Government Auditing Standards" issued by the U.S. General Accounting Office and state the audit will be performed in accordance with Office of Management and Budget (OMB) Circular A-128 "Audit of State and Local Governments" or A-133, "Audits of Institutions of Higher Education, and Other Nonprofit Institutions"; and in accordance with those applicable citations in Section 230.360 (a) of this Part.

4) Provision for a report on the internal control structure that awards are managed in compliance with applicable laws, regulations, and grant terms.

5) Provision for an expression of positive assurance of the compliance of the grantee and contractor with regulatory requirements (described in Section 230.361 of this Part) for tested items, and negative assurance for untested items.

6) Provision for a letter of a non-material audit finding(s) developed in the audit and excluded from the audit report.

7) Basis for allocation of audit fee. The cost of the audit shall be distributed to all sources of funds based on a reasonable distribution plan.

8) Due date for submission of the audit report.

9) The auditor will provide the grantee and contractor with a copy of the compliance audit workpapers.

10) Any additional terms, agreements or relationships affecting the audit engagement agreement.

c) The audit engagement agreement must be submitted to the Department for approval no later than 2 months after the end of the fiscal year to be audited.

d) The Department will approve or deny the engagement terms on the basis of the content of the audit engagement agreement. The audit engagement agreement will be denied for any of the following reasons:

1) The audit engagement agreement does not meet the minimum content required by subsection (b) of this Section;

2) The basis of allocation of the audit fee is not deemed to be reasonable because the percentage of the fee charged to each funding source or program does not represent the proportion of funds expended from each source or program relative to total funds expended for the audit period;

3) The terms of the engagement agreement do not comply with rule provisions governing audits, as specified in Sections 230.360 through 230.366.

(Source: Amended at 18 Ill. Reg. 14072, effective September 1, 1994)