

GUIDELINES
TO
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
PERFORMING FINANCIAL STATEMENT AUDITS
OF STATE AGENCIES

STATE AUDITOR
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Prepared by the
OFFICE OF THE STATE AUDITOR

Most auditing standards that certified public accountants are guided by in the private sector are also standards that must be followed in governmental auditing. The Office of the State Auditor and the Legislative Audit and Fiscal Review Committee require that in addition to generally accepted auditing standards, further responsibilities and reporting requirements are required for audits of state agencies.

The Office of the State Auditor recognizes a need for a clear delineation of these additional areas of responsibility for CPAs to use as guidelines in conducting audits of state agencies, and institutions. It is the intent of the Office of the State Auditor that by developing these guidelines to aid CPAs in developing their audit programs and reports, the completed reports will be of maximum value to the appropriate oversight bodies and taxpayers of the State of North Dakota.

To achieve uniformity for audits of state agencies, all such audits should be conducted in accordance with Government Auditing Standards as issued by the Comptroller General of the United States. When state agencies expend \$500,000 or more of Federal awards in a fiscal year, audits should be performed in accordance with OMB Circular A-133.

To enhance uniformity of audit reports, each report should be organized as follows:

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Information to be included in these sections is further described in the following paragraphs.

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The report should contain a table of contents listing the page location of each section of the audit report.

INDEPENDENT AUDITOR'S REPORT

Each audit report should include at a minimum, the independent auditor's report on the financial statements and supplementary data. Audits done in accordance with OMB Circular A-133 will need to include additional auditor's reports, as applicable.

FINANCIAL STATEMENTS

The financial statements should be prepared in accordance with generally accepted accounting principles (GAAP). In the unusual situation where the client finds that it is not feasible to present the statements in conformity with GAAP, the basis on which the statements have been prepared should be disclosed in accordance with generally accepted auditing standards. Financial statements should be comparative, with the two most current years being presented.

A statement of appropriations and notes to the financial statements should be included in the audit report.

SPECIAL COMMENTS REQUESTED BY THE LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

The scope of the auditor's examination requires implementation of audit procedures from which the auditor can make specific responses addressing each of the following items: (Note: Where exceptions to these points are found, they should be explained and quantified whenever possible. A summary of the recommendation to correct the deficiency should also be presented as part of the commentary presented after each of the following points.)

The six audit questions:

1. What type of opinion was issued on the financial statements?
2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?
3. Was internal control adequate and functioning effectively?
4. Were there any indications of lack of efficiency in financial operations and management of the agency?

5. Has action been taken on findings and recommendations included in prior audit reports?
6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

The eight issues to be communicated to the audit committee:

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.
2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.
3. Identify any significant audit adjustments.
4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.
5. Identify any serious difficulties encountered in performing the audit.
6. Identify any major issues discussed with management prior to retention.
7. Identify any management consultations with other accountants about auditing and accounting matters.
8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

Comments relative to the above shall be in clear, concise, and understandable terminology. Unnecessary and irrelevant details should be avoided. Commentary should be specific in all areas and generalizations should be avoided.

REPORT ON COMPLIANCE AND INTERNAL CONTROL

Each audit report should include an auditor's report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards.

AUDIT FINDINGS, RECOMMENDATIONS, AND AGENCY'S RESPONSES

Audit findings should be organized by subject matter and consist of a clear description of the weakness or deficiency observed and followed by the auditor's recommendation(s) for corrective action.

Each audit recommendation should be accompanied by the client's response to the recommendation. The response should be placed immediately after the finding and recommendation(s).

SUPPLEMENTARY DATA

This section of the report would include supplementary data prepared either by the client or the auditor. Examples of supplementary data usually found in audit reports could include:

- Comparative schedule of revenue;
- Comparative schedule of expenditures, and;
- Schedule of expenditures of Federal awards

REVIEW OF PRELIMINARY DRAFT OF REPORT

Proper arrangements should be made for a preliminary review of the report with the entity being audited. If the entity being audited is a college/university, arrangements should be made for reviewing the preliminary draft report with the ND University System Office in addition to college officials.

These guidelines are intentionally broad and are not intended to be all inclusive. Additional information, as well as examples of audit reports can be obtained by contacting the Office of the State Auditor.