

# **AUDITS: PURPOSE, PREPARATION, AND RESULTS**



## **REQUIRED AUDIT**

- **Indiana Code 5-11-1-9**  
Requires the State Examiner to examine all accounts and all financial affairs of every public entity
  
- **Federal Grant Agreements**  
Federal grant agreements commonly call for an annual audit
  
- **Debt Covenants & Bond Rating Agencies**  
Most financial institutions and bond rating agencies accept the SBOA audit report for their purposes

## **TYPES OF ENGAGEMENTS**

- **Federal Single Audit**
  - Expenditures of Federal assistance exceeds \$750,000
- **Audit**
  - Performed for all units
- **Compliance Reports**
  - Performed for units that do not have outstanding debt
  - Have revenues confirmed by outside sources
  - Have a limited amount of funds
- **Centralized Compliance Reports**
  - Performed for smaller units
  - Ease of records to be transmitted to SBOA central office in Indianapolis
  - Units of low risk

## **GOALS OF AN ENGAGEMENT**

- **Provide Opinions on Financial Information Presented by Auditee**
  - Unmodified, or “clean” opinion, lets readers know the information is materially correct
  - Modified opinion lets readers know there are issues that need to be taken into consideration when it comes to the information presented
- **Provide Reader with Noncompliance of Federal Requirements for Major Programs and State Requirements**
  - Federal: Section II (Financial Statement Compliance); Section III (Major Program Compliance)
  - State: Audit Results and Comments (significant or impactful to the unit and/or public)
- **Provide Management with less Significant Noncompliance of State Requirements**
  - Management Letter – General Noncompliance with State Statute or SBOA Compliance Guidelines Manual



## ENTRANCE CONFERENCE



## ENTRANCE CONFERENCE

### Who is invited?

- Those charged with governance
  - Council President & Commissioner President
- Management
  - Fiscal Officer: Auditor



### What is discussed?

- Introduction to the Field Examiners that will be working on the audit
- General overview of:
  - Audit Objectives*
  - Management Responsibilities*
  - Audit Procedures (general, internal control, compliance)*
  - Informing Management of general records that will be requested*
  - Start date & expected issuance date*

## ENTRANCE CONFERENCE

### Continuing Expectations

- Provide and inform attendees with a method to allow for continued communication throughout the audit process

### Field Examiners will:

- Explain the objectives of the engagement
- Explain what responsibilities management has
- Inform management of audit fees
- Answer any questions regarding the audit process



## AUDIT PROCESS

### Getting Started:

- Identification of Risks
- Internal Controls
- Testing
  - ❖ Internal Controls
  - ❖ Substantive
  - ❖ Compliance



## IDENTIFICATION OF RISKS

- Risks Associated with Significant Audit Areas
- How County Addressed Risks
- How Will Risk Impact Audit Procedures Performed



## INTERNAL CONTROLS

- The field examiner assigned will need to determine what controls are in place throughout the office and whether they have been properly designed and implemented.
- This can be done through:
  - ❖ Inquiry with official and staff
  - ❖ Observation of the process
  - ❖ Inspection of documents
- Field examiner will communicate any deficiencies found
- Policies and Procedures that have been instituted will be tested to ensure that they are sufficient and are working as intended.



## TESTING - SUBSTANTIVE

Field Examiners will perform procedures to determine if financial statement information is materially correct. All Cash, Receipts, and Disbursements within the Auditor's Ledger should be represented on the Financial Statements

### Cash

Auditor's Ledger should always be in agreement with the **FUNDS LEDGER - Cash** Line on the Treasurer's Cash Book

	Balance Previous Day	Transferred From Accounts Above By Quietus	Today's Cash Receipted By Quietus		Disbursed	Balance Close of Day
			70,357.54			
Other than Funds Ledger						
<b>FUNDS LEDGER - CASH</b>	54,607,667.35	-	70,357.54		(183.00)	54,678,207.89

## TESTING - SUBSTANTIVE Continued...



### Receipts:

- Money was actually received and belongs to the county
- Properly recorded and for correct amount
- Recorded in the correct accounting period
- Recorded in the proper fund

### Disbursements (includes Payroll):

- Actual obligation belongs to the county
- Properly recorded and for correct amount
- Recorded in the correct accounting period
- Recorded in the proper fund

## TESTING - COMPLIANCE

Field Examiners will perform procedures to determine that the county is in compliance with laws and regulations.

### Receipts:

- Recorded in a timely manner
- From an allowable source
- Posted to correct fund

### Disbursements:

- Voucher or attached invoice is adequately itemized and approved by person receiving goods/services.
- Recorded in a timely manner
- Certified by the fiscal officer
- Approved by governing board
- Proper use of funds
- Voucher = PO = Supporting Documentation = Check



## TESTING – COMPLIANCE Continued...

### Payroll:

- Rate of pay agrees to salary ordinance / resolution / contract adopted by governing board
- Attendance / time records maintained (salaried & hourly)
- Claim / Time record approved
- Recorded in a timely manner
- Proper use of funds
- Payee not paid in advance of hours worked.







## SUBSEQUENT EVENTS

### What Happened After The Audit Period:

- Debt Issued
- Change in Financial Situation
- Lawsuits
- Any Other Situations with Material Impact



## CONCLUDING FIELDWORK



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AN EQUAL OPPORTUNITY EMPLOYER

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#### INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF MORGAN COUNTY, INDIANA

#### Report on the Financial Statement

We have audited the accompanying financial statement of Morgan County (County), which comprises the financial position and results of operations for the year ended December 31, 2017, and the related notes to the financial statement as listed in the Table of Contents.

#### Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Determine Opinions

## CONCLUDING FIELDWORK Continued...

- Compiling Findings:
  - 1) **Section II** – Findings related to the financial statements
  - 2) **Section III** – Findings related to a major program
  - 3) **Audit Results and Comments** – Significant Noncompliance with statute or an SBOA uniform compliance guideline
  - 4) **Management Letter** – Not significant noncompliance with statute or an SBOA uniform compliance guideline – Not public
  - 5) **Discussion Only** – Immaterial noncompliance with statute or an SBOA uniform compliance guideline – Not public

## AUDIT CONCLUSION

### Communication:

- Field Examiners will discuss any issues throughout the audit process
- No surprises at Exit



## AUDIT CONCLUSION – EXIT CONFERENCE



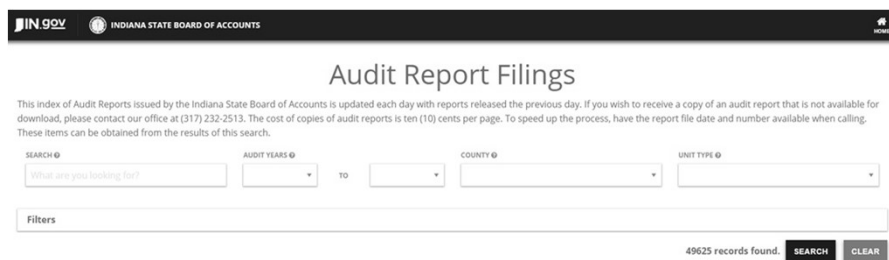
- Field Examiners will discuss any issues found that will be In the Audit Report
- Commissioners and Council will also be informed of issues
- An official response can be made to appear in the report as well

## REPEAT FINDINGS

- Any Findings that appeared in the prior report are called a repeat finding and a corrective action plan (CAP) is required to be submitted through our website.
- Instructions are found the SBOA website:  
<https://www.in.gov/sboa/4856.htm>
- The corrective action submitted through our website is **not** part of the official report.

## AUDIT REPORTS

- Audit Reports are sent to:
  - ❖ Current and Prior Official(s) examined
  - ❖ President of governing board
  - ❖ Other requested officials
- Audit Reports are posted to our website:
  - ❖ <https://secure.in.gov/apps/sboa/audit-reports/#/>



The screenshot shows the "Audit Report Filings" search page on the Indiana State Board of Accounts website. The page header includes the IN.gov logo and the text "INDIANA STATE BOARD OF ACCOUNTS". Below the header, the title "Audit Report Filings" is centered. A paragraph of text explains that the index is updated daily and provides contact information for those who wish to receive a copy of an audit report not available for download. The search interface includes several input fields: "SEARCH" (with a placeholder "What are you looking for?"), "AUDIT YEARS" (with a dropdown arrow), "TO" (with a dropdown arrow), "COUNTY" (with a dropdown arrow), and "UNIT TYPE" (with a dropdown arrow). Below these fields is a "Filters" section. At the bottom right, it displays "49625 records found." and two buttons: "SEARCH" and "CLEAR".



# QUESTIONS