

# THE STATE AGENCY BULLETIN

AND UNIFORM COMPLIANCE GUIDELINES  
ISSUED BY STATE BOARD OF ACCOUNTS

April 2023

Volume 4

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## STATE AGENCY ADVISORY SERVICES

The State Board of Accounts (SBOA) has created an advisory service for state agencies to provide guidance from an SBOA perspective on accounting and compliance guideline requirements, internal control best practices, resolution of audit issues and more. We are here to serve you! The best way to contact us is through our shared inbox and phone number:

**stateagencyadvisory@sboa.in.gov; 317-232-2513**

## AUDIT REPORT FILINGS

The Annual Comprehensive Financial Report (ACFR) for fiscal year 2022 was filed on January 13, 2023: <https://www.in.gov/sboa/WebReports/B60562.pdf>

The State Single Audit was filed on March 31, 2023: <https://www.in.gov/sboa/WebReports/B61127.pdf>

## UNDERSTANDING THE AUDIT REPORT SERIES – Part 2

### Financial Statement Audit Report

When SBOA issues an Independent Auditor’s Report, the SBOA expresses an opinion as to whether the financial statements are presented fairly, in all material respects, with the applicable financial reporting framework. This enhances the degree of confidence that intended users can place on the financial statements. An *unmodified opinion* indicates that the financial statements are presented fairly, in all material respects, with the applicable financial reporting framework. (AU-C 700.11, 13)

The State Annual Comprehensive Financial Report (ACFR) for fiscal year 2022 has an unmodified opinion from the SBOA.

## **UNDERSTANDING THE AUDIT REPORT SERIES – Part 2 (CONTINUED)**

### **Single Audit Report**

When SBOA performs a single audit, SBOA expresses an opinion as to whether the state complied with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program. An *unmodified opinion* indicates that the state complied, in all material respects, with Federal statutes, regulations, and the terms and conditions of Federal awards which could have a direct and material effect on each major program.

If an SBOA expresses a modified opinion, it will be expressed as one of the following:

- Qualified – Expressed either when the auditor has collected sufficient appropriate audit evidence to determine instances of noncompliance identified are material to the major program(s) but not pervasive; or the auditor was unable to obtain sufficient appropriate audit evidence due to a restriction(s) on the audit scope.
- Disclaimer – Expressed when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion but concludes that the possible noncompliance, if any, could be both material and pervasive.
- Adverse – Expressed after the auditor has collected sufficient, appropriate evidence, and determines that the noncompliance is both material and pervasive.

In the Single Audit Report filed March 31, 2023, each major program was given either an unmodified or a qualified opinion based on the results of audit procedures for the program.

### **AUDIT EVIDENCE**

During an audit, SBOA must obtain sufficient audit evidence on which to base an opinion. For the ACFR, audit evidence includes information contained in the accounting records and supporting documents. Throughout the year you are asked by the Auditor of State to prepare or certify financial information to be used in the preparation of the financial statements, for example Internally Generated Computer Software Work In Progress (SWIP). To verify the amount certified for SWIP, SBOA will need to review the supporting documentation for the amounts certified. The same would be true for any financial statement numbers. In preparation for the audit, it is important that financial statement numbers and transactions be reviewed and referenced to calculations and supporting documentation.

SBOA State Advisory Services would be happy to answer any questions you have about maintaining information for audit.

## INTERNAL CONTROL SERIES – PART 2

In the January 2023 State Agency Bulletin (Internal Control Series - Part 1), we briefly discussed the five components of internal controls:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Each agency must aim to make the most effective and efficient use of its resources in rendering services. A sound internal control system provides reasonable assurance that the agency will accomplish its mission and objectives with accountability and transparency.

For each component of internal control COSO developed principles that must be present for an effective internal control system. Each principle is supported by 4-6 points of focus to help with the design, implementation, and monitoring of internal controls. Points of focus are not required, but they do provide valuable insight.

In this segment, we are focusing on the Control Environment. The control environment is defined in FMC 6.1 as “the foundation for an internal control system that provides the discipline and structure to help a state agency achieve its objectives.” The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control for all objectives.

This component is static in that its underpinnings do not generally change with a given objective.

The control environment sets the tone of the organization and influences the effectiveness of internal controls within the government. Five principles pertain to the control environment:

### **Principle 1. The organization demonstrates a commitment to integrity and ethical values.**

Management demonstrates these values through directives, attitudes, and behavior. Established standards of conduct are expected to be observed by all throughout the agency and are used when evaluating adherence to agency values. The State Ethics Policy is an example of the State’s commitment to integrity and ethical values.

### **Principle 2. Leadership exercises oversight of the development and performance of internal control.**

An example for Principle 2 would be leadership’s commitment to the establishment of written internal controls and standard operating procedures for the handling of cash by the agency.

### **Principle 3. Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the agency's objectives.**

Organizational structure is designed, responsibilities are assigned, and authority is delegated to enable the achievement of objectives. An organizational chart is a good example for Principle 3.

**Principle 4. Management demonstrates a commitment to recruit, develop, and retain competent individuals.**

Management determines the skills necessary for each level of the organizational chart and assesses each employee for skills necessary to accomplish the assigned responsibilities.

Examples include creating job descriptions and determining skills necessary to perform jobs, developing a training plan, assessing the best recruitment pools, etc.

**Principle 5. Management evaluates performance and holds individuals accountable for their internal control responsibilities.**

Individuals are held accountable for their internal control responsibilities through a recognized, understood structure which includes corrective action procedures.

An example for Principle 5 would be the establishment of a formal employee evaluation to assess the performance of each employee's internal control responsibilities.

In the next bulletin article, we will discuss the principles related to the component of Risk Assessment.