

December 2005

AUDIT REPORT PRESENTATION GUIDELINES

This memorandum summarizes the audit report presentation guidelines, including the current "12 questions" to be addressed by auditors of state agencies and the proposed changes to the guidelines under consideration by the Legislative Audit and Fiscal Review Committee. North Dakota Century Code Section 54-35-02.1 provides that the Legislative Audit and Fiscal Review Committee is to:

- Study and review the financial transactions of the state.
- Assure the collection of revenues and the expenditure of money are in compliance with law, legislative intent, and sound financial practices.
- Provide the Legislative Assembly with formal objective information on revenue collections and expenditures.

CURRENT "12 QUESTIONS"

The 12 questions are a list of statements to be addressed by auditors of state agencies as part of the postaudit program. The scope of audit examinations requires certain audit procedures from which the auditor can address these statements. Auditors are directed to answer and quantify exceptions to the questions and provide a summary of any recommendation to correct the deficiency. The 12 questions are:

1. Were expenditures made in accordance with legislative appropriations and other state financial requirements and restrictions?
2. Were revenues accounted for properly?
3. Were there adequate financial controls and procedures?
4. Was the system of internal control adequate and functioning effectively?
5. Do financial records and reports reconcile with state fiscal offices?
6. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?
7. Was there any indication of fraud or dishonesty?
8. Were there any indications of lack of efficiency in financial operations and management of the agency?
9. Has action been taken on findings and recommendations included in prior audit reports?
10. Were all activities of the agency encompassed within appropriations of specific amounts?
11. Has the agency or institution implemented the Statewide Accounting and Management Information System (SAMIS), including the

cost allocation system? (NOTE: SAMIS has been replaced with the new ConnectND system.)

12. Has the agency developed budgets of actual anticipated expenditures and revenues on at least a quarterly basis and compared, on at least a quarterly basis, actual expenditures and revenues on the accrual basis to budgeted expenditures and revenues?

REVISED AUDIT REPORT QUESTIONS

During the 2003-05 interim, the Legislative Audit and Fiscal Review Committee received suggested changes from the State Auditor's office to revise the current 12 questions to 6. The following is the proposed revised list of questions that could be addressed by auditors, with additional changes made in bold-faced type based on independent auditors' suggestions:

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.**

AUDIT COMMITTEE COMMUNICATIONS

To assist the committee in fulfilling the statutory responsibilities, audit report presentations could be enhanced to highlight key areas and issues that are of interest to committee members. The presentations would be similar to those made by auditors to an "audit committee."

The following is the proposed list of areas that auditors could review with the Legislative Audit and Fiscal Review Committee, with additional changes made in bold-faced type based on independent auditors' suggestions:

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.**

AUDITORS' RECOMMENDATIONS FOR THE PROPOSED QUESTIONS

Representatives of Eide Bailly LLP and Brady, Martz & Associates, P.C., were asked for their input regarding the proposed changes to the 12 questions required to be addressed by auditors of state agencies, boards, and institutions. Attached as an appendix is the auditors' responses. The auditors' recommendations for the proposed questions include:

- Statement on Auditing Standards No. 99 relating to consideration of fraud in a financial statement audit is adequately addressed. Eide Bailly LLP indicated that fraud issues would be addressed in proposed audit questions Nos. 2 and 3. Brady Martz indicated that if material misstatements to the financial statements from fraud are discovered during the audit, the proper authorities would be notified and it will be properly reported in the financial statements.
- Eide Bailly LLP recommended that proposed question No. 6 include a summary of management responses to the audit recommendations provided in the management letter. This will provide clarification of management's intentions to implement the recommendations.
- Eide Bailly LLP recommended that "high-risk" information technology systems "critical" to operations be further clarified in question No. 8 of the proposed audit committee communications.

ATTACH:1