



# North Dakota Legislative Council

Prepared for Legislative Audit and Fiscal Review Committee  
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## AUDIT REPORT COMMUNICATIONS AND CONTENTS

### BACKGROUND

The Legislative Audit and Fiscal Review Committee, pursuant to North Dakota Century Code Section 54-35-02.10, is responsible for developing guidelines for the contents of audit reports in consultation with the State Auditor.

At earlier meetings, the committee received information from the State Auditor's office on auditing standards and procedures. The committee also received suggestions from the State Auditor's office and private accounting firms on potential changes to the audit-related questions/communications included in the audit reports.

Since 2006, the Legislative Audit and Fiscal Review Committee has requested auditors of state agencies and institutions to address the following six audit questions and eight audit communication items in audit reports:

#### 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.

#### Communication items:

1. Significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.
2. 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. Significant audit adjustments.
4. Disagreements with management, whether resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.
5. Serious difficulties encountered in performing the audit.
6. Major issues discussed with management prior to retention.
7. Management consultations with other accountants about auditing and accounting matters.
8. 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.

### POTENTIAL CHANGES TO FINANCIAL STATEMENT AUDIT REPORTS

Based on input from the State Auditor's office and private accounting firms, the committee may wish to consider replacing the 14 audit-related questions/communications with a separate audit summary document that would be submitted along with the audit report. The change would be effective for audit periods ending on or after

June 30, 2022. [Appendix A](#) identifies the information that would be included in the summary and [Appendix B](#) provides an example of a completed summary.

### **POTENTIAL CHANGES TO "OPERATIONAL" AUDIT REPORTS**

For "operational" audit reports prepared by the State Auditor's office, the committee may wish to consider:

1. Removing the 14 audit-related questions/communications since most are not applicable to the "operational" audit;
2. Requesting the "operational" audit summary, already included in the report by the State Auditor's office, be expanded to summarize the areas reviewed and testing conducted as part of the audit even if there were no findings or recommendations related to the area reviewed or test results; and
3. Requesting the State Auditor's office to include limited comparative financial data in the audit reports on assets and liabilities of the agency. Comparative financial data is shown for revenues, expenditures, and appropriations, but not for assets and liabilities. The information would not be audited, but included for informational purposes similar to the revenues, expenditures, and appropriations information. The information could be provided by the agency or compiled from information submitted by the agency for preparation of the state's annual comprehensive financial report.

These changes would be effective for audit periods on or after June 30, 2022. [Appendix C](#) provides an example of the types of information that could be provided on assets and liabilities.

ATTACH:3