

LEGISLATIVE AUDITOR

CHECKLIST TO AVOID COMMON GOVERNMENTAL ENGAGEMENT DEFICIENCIES

The following checklist provides a list of things that should be either included or documented in the audit report/working papers to avoid some of the common governmental engagement deficiencies. This checklist is not all-inclusive as it includes only those areas where the legislative auditor has noted recurring deficiencies through conducting engagement reviews of government audits. Please note that the legislative auditor does not require or prescribe the amount of audit work you do, the form of your working papers, or the content of your working papers, however, suggestions are included for your consideration.

Compliance with Louisiana Laws and Regulations

1. Is the *Louisiana System Survey and Compliance Questionnaire* included in the working papers? (*Louisiana Governmental Audit Guide* 333.01, 337.02, and Appendix A.) (Including a step in your audit planning procedures to obtain the completed questionnaire, along with evidence that it was adopted by the governing body by resolution in an open meeting [independently elected officials should sign the questionnaire], should ensure that the questionnaire will always be included in the working papers.)
2. Do the working papers document that you tested the accuracy of the responses in the *Louisiana System Survey and Compliance Questionnaire*? (*Louisiana Governmental Audit Guide* 333.01, 337.02, and Appendix A.) (One way this can be documented is cross-referencing the specific law on the questionnaire to the specific working paper where the law is tested or considered.)

Internal Control Structure

1. Do the working papers document that you obtained an understanding of each of the five components of internal control? (AU Section 319) (The understanding should be sufficient to plan the audit by performing procedures to understand the design of controls relevant to an audit of financial statements, and whether they have been placed in operation.)
2. For the electronic data processing applications, do the working papers document an understanding of the controls? (AU Sections 311.09-.10, 326.12, and 319) (The understanding at a minimum should include the extent to which the computer is used in significant applications, source of software used [in-house or purchased], how the computer is used to process data, computer input or output data, and your consideration of whether a further understanding of the entity's general computer controls is necessary.)
3. Do the working papers document the assessed level of control risk for the relevant financial statement assertions? (AU Sections 319 and 801.14 and GAS 4.30) (The working papers should clearly document your assessment of control risk [either at maximum or below the maximum level] for each relevant financial statement assertion, including compliance with applicable laws and regulations.)

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Analytical Procedures

1. Do the working papers document that analytical procedures were performed during the planning phase of the audit? (AU Sections 329.04 and 329.06-.08) (Including a step in your audit planning procedures and cross-referencing it to the specific working paper where the preliminary analytical procedures are performed is one way of making sure that analytical procedures are performed during the planning phase of the audit.)
2. Do the working papers document that the significant variances and fluctuations were investigated and resolved and that the results of the analytical procedures were reflected in the nature, timing, and extent of audit procedures? (AU Section 329) (Instead of just explaining/justifying the variances, document the impact that the variance will have on the nature, timing, and extent of other auditing procedures. One way this may be accomplished is after your preliminary judgment of materiality levels are established, identify the specific variance or concern that could have a material impact on the financial statements and reference it to the step in the audit program where it will be addressed. This may entail modifying the audit program by adding procedures, deleting procedures, or simply determining that the audit program addresses the specific concern.)
3. Are analytical procedures performed in the final review stage of the audit documented in the working papers? (AU Sections 329.04 and 329.22) (One way this can be documented is including a step on the final review audit program and briefly explain in one or two sentences the analytical procedures performed and the conclusions reached.)

Audit Sampling

1. For audit sampling applications, do the working papers document the sampling objective of the tests, tolerable error or rate, allowable risk of over reliance or incorrect acceptance, population characteristics, expected results, and how the sample sizes were determined? (AU Section 350) (Using a standardized form for each sampling application that includes all the sampling requirements is one way to ensure that sampling applications are adequately documented in the working papers.)

Related Party Transactions

1. Do the working papers document your consideration of possible related party transactions? (AU Section 334) (One way this can be done is by determining and documenting the outside businesses owned or business interests of key employees; administrative officials; officers; board members; and immediate families of administrative officials, board members, and members of the governing body. Then, documenting that during the audit and in particular during the test of expenditures, you or your audit staff will be cognizant or alert to any transactions with any of the potential related parties identified.)

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Accounts Receivable Confirmation

1. If accounts receivable are not confirmed, do the working papers document why accounts receivable are not being confirmed and how you overcame not confirming receivables? (AU Section 330) (One way this can be documented is inclusion of an audit step on the audit program which requires you to explain why accounts receivable are not being confirmed and how you obtained sufficient alternative evidence.)

Fixed Assets

1. Do the working papers document that, in addition to testing the valuation of fixed assets, you tested for existence of fixed assets? (AU Section 326) (Adding a step on the audit program for testing the existence of fixed assets is one way of ensuring that you will test the existence of fixed assets.)

Reporting Entity

1. Do the working papers document the procedures performed by the auditor in determining the existence of potential component units and how those units were evaluated when determining the scope of the reporting entity? (ASLGU Chapter 2 and GASB Cod. Sections 2100 and 2600) (In April 1994, the legislative auditor provided guidance relating to GASB Statement No. 14 to all certified public accountants auditing local governments. This guidance included a Financial Reporting Entity Worksheet, Financial Reporting Entity Flowchart, and Financial Reporting Entity Flowchart Questions. Completing these for each potential component unit and filing them in the permanent file to be updated each year would provide sufficient documentation of determining the existence of potential component units and how those units were evaluated in determining the scope of the reporting entity.)
2. If the auditee is a component of another entity, do the working papers document the criteria used to make that determination? (ASLGU Chapter 2 and GASB Cod. Sections 2100 and 2600) (Including the completed legislative auditor's Financial Reporting Entity Worksheet, Financial Reporting Entity Flowchart, and Financial Reporting Entity Flowchart Questions is one way of documenting whether the auditee is a component of another entity and the criteria used to make that determination.)

Auditor's Reports

1. Does the auditor's report on the financial statements include a title that includes the word *independent*? (AU Section 508.08) (We suggest that the final review checklist include this question.)
2. If you are reporting on a component unit, are the financial statements referred to as general purpose rather than component unit financial statements? (ASLGU Sections 18.17-18.18 and Appendix A) (We suggest that the final review checklist include this question.)
3. If the auditor's opinion is modified for a departure from a generally accepted accounting principle, are the principal effects of the subject matter of the qualification on the financial position, results of operations, and cash flows described or is a statement included that says the effects are not reasonably determinable? (AU 508.38) (We suggest that the final

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review checklist include this question.)

4. Are all the required OMB Circular A-133 reports included? (OMB Circular A-133 §____.505) The auditor's reports may be in the form of either combined or separate reports and should include the following:
 - An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
 - A report on internal control related to the financial statements and major programs.
 - A report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements.
 - A schedule of findings and questioned costs which shall include the following three components:
 - A summary of the auditor's results.
 - Findings relating to the financial statements that are required to be reported in accordance with generally accepted government auditing standards.
 - Findings and questioned costs for Federal awards

(We suggest that your firm prepare a reporting manual or reporting matrix that describes the reports that should be issued under various circumstances. The final report should be compared to the reporting manual or reporting matrix during the final review.)
5. Are audit findings reported as required by OMB Circular A-133? (OMB Circular A-133 §____.510(a)) You should report the following as audit findings in a schedule of findings and questioned costs:
 - Reportable conditions in internal control over major programs.
 - Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.
 - Known questioned costs that are greater than \$10,000 for a type of compliance requirement for a major program.
 - Known questioned costs that are greater than \$10,000 for a Federal program that is not audited as a major program.
 - The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
 - Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.
 - Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with §____.315(b) materially misrepresents the status of any prior audit finding.
6. Are audit findings presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-through entities to arrive at a management decision? (OMB Circular A-133 §____.510(b) and GAS 5.19 and 5.27) The following specific information shall be included, as applicable, in audit findings:
 - Federal program and specific Federal award identification including the CFDA title and number, Federal award number and year, name of Federal agency, and name of the

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applicable pass-through entity.

- The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
- The condition found, including facts that support the deficiency identified in the audit finding.
- Identification of questioned costs and how they were computed.
- Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem.
- The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
- Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
- Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.

(One way you can ensure that all the elements of a finding are included is to develop a form that lists all the elements of a finding [leave several lines between each element for a place to fill in the appropriate information]. When your audit discloses a possible finding, complete the form. When you prepare the report, the information on the form should be sufficient to include in the report as a finding [with minor editing].)

7. Does each audit finding in the schedule of findings and questioned costs include a reference number to allow for easy referencing of the audit findings during follow-up? (OMB Circular A-133 §___510(c))
8. Are all reportable conditions/material weaknesses in internal controls identified in the working papers included in your report on internal controls? (GAS 5.26) (Although an adequate segregation of duties may not be feasible or cost beneficial due to the small size of the entity, the report on internal controls should reference this reportable condition/material weakness.)
9. If there is a management letter, is reference made in the internal control/compliance reports that other matters involving the internal control structure or certain immaterial instances of noncompliance were noted and reported to management in a separate letter? (GAS 5.20 and 5.28) (We suggest that the final review checklist include this question.)
10. If there are instances of noncompliance with Louisiana laws and regulations, are these instances disclosed in your report on compliance with laws and regulations or communicated to management, preferably in writing, depending on whether they are considered material or nonmaterial instances of noncompliance? (GAS 5.18-5.20) (We suggest that all findings be accumulated together along with your documented reasons as to whether you consider them material or nonmaterial instances of noncompliance. During the final review, the reviewer should account for each of the findings and make sure that the findings are either included in the report on compliance or included in the letter to management.)
11. For audit periods ending after January 1, 1995, does the auditor's report on the financial statements include a paragraph after the opinion paragraph regarding issuing a report on the internal control structure and a report on compliance with laws and regulations? (GAS 5.15-5.16 and ASLGU Sections 24.02-24.03 and Appendix A, Example A.1, footnote 3) (We suggest that the final review checklist include this question.)

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Financial Statements and Notes

Note: Although the financial statements and notes thereto, are the responsibility of the entity, the auditor usually compiles them or assists in compiling them. We suggest that the final review checklist include these questions, among others, to help ensure that the financial statements are presented fairly.

1. Are there references to Louisiana Revised Statute 24:517 or to the Louisiana Municipal Audit and Accounting Guide? (These have been replaced by Louisiana Revised Statute 24:514 [accounting and reporting procedures] and the Louisiana Governmental Audit Guide.)
2. Do the notes to the financial statements include the Governmental Accounting Standards Board Statement Number 14 criteria used to determine the scope of the reporting entity? (ASLGU Chapter 2 and GASB Cod. Sections 2100, 2600, and 2300.106)
3. Do the notes include the entity's policies regarding what is included as cash equivalents and investments? (GASB Cod. Sections 2450.106-.108)
4. Is the amount of total bank balances classified by credit risk category? (GASB Cod. Sections C20.106 and I50.163)
5. Is the carrying amount by type of investment classified by credit risk category? (GASB Cod. Section I50.164)
6. Are deficit fund balances of individual funds disclosed in the notes? (GASB Cod. Section 2300.106)
7. Is the extent to which fixed asset costs have been estimated, and the methods of estimation disclosed in the notes? (GASB Cod. Section 1400.112)

1994 Revisions to *Government Auditing Standards* (Yellow Book)

The following relate to revisions made to the *Government Auditing Standards* (Yellow Book) that you should consider when conducting financial audits of periods ending on or after January 1, 1995.

1. Does the engagement agreement submitted to the auditee include the most recent external quality control review report? (GAS 3.36)
2. Do the working papers document your consideration of setting lower materiality levels as compared to audits in the private sector because of the public accountability of the auditee, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions? (GAS 4.9) (*The Government Auditing Standards* do not require that your consideration be documented in the working papers, however, we suggest you document your thought process regarding setting lower materiality levels.)

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3. Do the working papers document your understanding of internal controls over safeguarding of assets (safeguarding controls)? (GAS 4.25 - 4.29) (The *Government Auditing Standards* do not require that the understanding be documented in the working papers, however, we suggest you document your understanding. We feel that this is part of the planning process and should be documented. The importance of understanding safeguarding controls is pointed out in GAS 4.27, "Because preventing or detecting material misappropriations is an objective of safeguarding controls, understanding those controls can be essential to planning the audit" and GAS 4.29, "Understanding these safeguarding controls can help auditors assess the risk that financial statements could be materially misstated.")
4. Do the working papers document the required communications related to the conduct and reporting of the audit to the audit committee or to the individuals with whom you have contracted for the audit? (GAS 5.5 - 5.10) (Specifically, you should communicate your responsibilities in a financial statement audit, including your responsibilities for testing and reporting on internal controls and compliance with laws and regulations, and the nature of any additional testing of internal controls and compliance required by laws and regulations. In addition, to help audit committees and other responsible parties understand the limitations of your responsibilities for testing and reporting on internal controls and compliance, you should contrast those responsibilities with other financial related audits of controls and compliance.)
5. Does the auditor's report on the financial statements state that the audit was made in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States? (GAS 5.11 and ASLGU Appendix A, Example A.1, footnote 2)

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Legend for References

AU	American Institute of Certified Public Accountants' <i>Codification of Statements on Auditing Standards</i>
GAS	<i>Government Auditing Standards</i> issued by the Comptroller General of the United States (1994 Revision)
ASLGU	American Institute of Certified Public Accountants' Audit and Accounting Guide, <i>Audits of State and Local Governmental Units</i> (May 1, 1995)
GASB Cod.	Governmental Accounting Standards Board (GASB) <i>Codification of Governmental Accounting and Financial Reporting Standards</i> (June 30, 1995)
OMB	Office of Management and Budget
SOP	American Institute of Certified Public Accountants' <i>Statement of Position</i>
