

# INDIANA STATE BOARD OF ACCOUNTS



## Understanding the Audit Process

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Your government has been scheduled for an audit. The audit process provides an objective, independent review of your stewardship and fosters accountability to the citizens of Indiana.

This booklet has been prepared to familiarize you with the audit process and provide insight into the key stages of its development, from the earliest stages to the final report. The booklet is intended only to highlight some of the significant elements of the audit. These elements are also applicable to our other types of engagements. Our staff will be happy to answer any questions as they come up during the process.

The mission of the Indiana State Board of Accounts is clear: "We are dedicated to providing the citizens of the State of Indiana with complete confidence in the integrity and financial accountability of state and local government." This is the perspective our auditors bring to their work. We strive to accomplish our goals competently and professionally. We respectfully request your cooperation during this process to ensure that the essential facts are expeditiously collected and accurately interpreted. Working cooperatively will make this an easy process for you and a meaningful one for your constituency.

Our staff will schedule periodic meetings with you or your designated liaison to keep you fully informed of our progress. In addition, you may contact the on-site field examiner or any member of our management team at any time.

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## **OUR VALUES**

### **PUBLIC SERVICE**

We provide the highest level of professional services to governmental units and the public.

### **EXCELLENCE**

We strive for excellence and professionalism in the performance of each engagement and in the providing of training and advisory services to public officials.

### **INTEGRITY**

We promote honesty, transparency, loyalty, and trust in the performance of our responsibilities to the citizens of the State of Indiana.

### **RESPECT**

We treat all people with whom we have contact with respect, creating an atmosphere of trust, support, and open communication, both internally and externally.

### **EFFICIENCY**

We encourage the efficient and innovative use of time and resources at all levels.

### **INDEPENDENCE**

We maintain an independent attitude which is free from all political, social, and financial influences.

## **OUR BOARD**

Per Indiana Code 5-11-1, our Board is appointed by the Governor of the State of Indiana with the appointments requiring acceptance by the Indiana General Assembly's Legislative Council.

## **ENGAGEMENTS**

We examine the financial activity and statements of all governmental units within the state, including cities, towns, utilities, schools, counties, license branches, state agencies, hospitals, libraries, townships, and state colleges and universities. The agency conducts the following types of engagements:

- Financial Audit
- Examinations
- Federal A-133 Audits
- Compliance Reviews
- Investigatory Audits
- Agreed-Upon Procedures

It will be discussed at the entrance conference as to what type of engagement will be performed at the unit.

## **ACCESS TO RECORDS**

During the audit, our staff will require access to records, files, and other information to complete the audit effectively. This may include information that various laws define as confidential and/or proprietary. Our right to access this information required for audit purposes is derived from Indiana Code.

## **AUDIT PROCESS**

A typical audit has several interrelated stages or activities.

### Research and Information Gathering

This process starts with the Annual Financial Report that is submitted on the Gateway System. Our Data Analysis Unit will review the reports to better determine how to schedule our audits and examinations for the year. This analysis can include requests for additional information and documents from the unit's staff. Our staff may request additional information regarding federal grants to determine if a Federal A-133 audit is required.

### Entrance Conference

An entrance conference establishes a climate of cooperation, informs local government officials, other top management, and the governing boards about the audit process and offers the officials the opportunity for input. The Lead Auditor, who will work directly with the unit, and the Audit Manager, who will oversee and review the audit process, will be present at the entrance conference. They will explain the audit process in more detail. In preparation for the audit, records for the audit period should be located and made available for audit. Records requested will include: board minutes for all boards and departments; approved budgets; annual financial reports; fund and appropriation ledgers; bank reconciliations and bank statements; investment registers; receipts; claim vouchers; payroll records; capital asset records; debt schedules; lease agreements; contracts; written internal control procedures/policies and federal grant files.

### Evaluation of Internal Control Procedures

The audit team will perform an assessment of the local unit's internal controls. Controls are the policies and procedures that have been established by management to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. This process of assessing internal controls will involve interviews with the unit's staff. We may observe procedures or request records that support the control procedures in place. Based on the assessment of internal controls, we can better allocate our audit resources.

### Implementing the Audit Plan

This phase consists of the focused audit effort. The Audit Manager supervises the day-to-day activities of the on-site audit team to ensure quality audit work is completed within time frames. Our audit plan will involve judgment about the number of transactions to be examined and the areas to be tested to support our audit opinion on the financial statement and related notes. The financial statement is compiled from information included in the Annual Financial Report submitted by the governmental unit each year.

## Preliminary Audit Findings

Throughout the fieldwork phase, the audit team will communicate any issues that they find and discuss them with the unit. The Lead Auditor or Audit Manager will discuss the findings for the federal audit and any noncompliance findings determined through the fieldwork performed. Each department of the governmental unit examined will receive the preliminary findings related to their department if any are noted. Issues can be included in the audit report as either Federal Findings or an Audit Result and Comment (ARC). Issues that are not included in the audit report will be communicated and are called Matters for Further Consideration (MFC).

## Exit Conference

At the completion of the fieldwork, the Audit Manager will review the draft of the audit report including findings as well as a final review of all of the workpapers supporting the audit report. Once that review is complete, an exit conference will be scheduled with the official audited and a representative of the governing board as well as any other appropriate officials. The draft of the audit report and all findings will be discussed at the exit conference. This meeting provides local officials the opportunity to clarify issues that are to be included in the final report. It is important for the officials to fully understand the findings or comments that are presented and also understand what follow up will be required for these issues. If there is additional information that could affect the findings or comments that has not been presented during the fieldwork, the additional information should be presented at this time. The exit conference is not a public meeting and the audit report is not considered a public document until the draft report has a final review and is filed by our office. As such, no information discussed in the exit conference may be disclosed to anyone outside the governmental unit.

## **REPORT DISTRIBUTION**

Indiana Code 5-11-5-1 provides the requirements of the State Examiner for issuing reports. It requires that the unit examined be given the opportunity to review the report and provide a written response after an examination is completed but before it is issued. If received within 10 days, either through the mail or as a PDF emailed to Lisa David (ldavid@sboa.in.gov), then the unit's written response becomes part of the issued report. The statute requires reports be filed with the official that is examined; the auditing department of a municipality, if applicable; and an electronic copy with the State's Legislative Services Agency. Issued audit reports are public documents that governmental units would be required to make available upon request. In addition to the distributed copies, the issued report will be placed on the Indiana State Board of Accounts' website (<http://www.in.gov/sboa/resources/reports/audit/>) and be made available to the public. If an examination discloses malfeasance, misfeasance, or nonfeasance in a governmental unit then a copy of the issued report will be sent to the Attorney General's Office for possible civil action and may be sent to the local Prosecuting Attorney's Office for possible criminal action.

## **SHARED COMMITMENT**

We understand the audit process can be a trying time. Our auditors are always seeking ways to reduce disruption to the units' operations and to minimize the additional burden on the units' staff. We seek and welcome constructive suggestions for improving the audit process. Please feel comfortable in providing these suggestions to our staff on site or contact our office.

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