

OFFICE OF STATE CONTROLLER FINANCIAL CONFERENCE

STATE AUDITOR'S UPDATE

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SESSION OBJECTIVES

- ✓ **Yellow Book Changes and How They Will Impact Audits Performed by Office of State Auditor**
- ✓ **New Legislation Regarding Agency Audits**
- ✓ **Enterprise Resource Planning/Financial Backbone Replacement (ERP/FBR)**
- ✓ **Preparation of State's Compliance Supplements**



YB – OVERALL CHANGES

Revised Format – All Chapters

- **Differentiates Requirements and Related Application Guidance**
- Chapters are Reorganized/Realigned
- Supplemental Guidance Removed/Incorporated into Chapters

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2018 REVISED YB – OVERALL CHANGES

Differentiates Requirements and Related Application Guidance

Requirement: Availability of Individuals and Documentation

8.133 Subject to applicable provisions of laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers.

Application Guidance: Availability of Individuals and Documentation

8.134 Underlying GAGAS audits is the premise that audit organizations in federal, state, and local governments and public accounting firms engaged to conduct audits in accordance with GAGAS cooperate in auditing programs of common interest so that auditors may use others' work and avoid duplication of efforts. The use of auditors' work by other auditors may be facilitated by contractual arrangements for GAGAS audits that provide for full and timely access to appropriate individuals and to audit documentation.

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2018 REVISED YB – OVERALL CHANGES

Chapters Are Reorganized and Realigned

- Chapter 1- Now Addresses Types of GAGAS Engagements
- Chapter 2 – Contains General Requirements for Complying with GAGAS
- Ethical Principles and Independence in Single Chapter (Chapter 3)
- Competence and CPE in Single Chapter (Chapter 4)
- Quality Control & Peer Review Requirements (Chapter 5)



2018 REVISED YB – OVERALL CHANGES

Supplemental Guidance From Appendix of 2011

- Removed, OR
- Incorporated Into Individual Chapters



2018 REVISED YB – CHAPTER 3

ETHICS, INDEPENDENCE & PROFESSIONAL JUDGMENT

- Further Explanation of Independence Requirements of Auditor When Engaging Party Differs From Responsible Party
- Guidance When Govt. Auditors Conditions Do Not Permit Independence
- **Standard Expanded – Requirement Auditors Reevaluate Threats to Independence...Organization Aware of New Information/Changes in Facts/Changes in Circumstances**
- Further Explanation of Guidance Related to Professional Services in Government
- **Standard Expanded Regarding Preparation of Accounting Records/Financial Statements Create Significant Threats to Auditors' Independence**



NEW LEGISLATION

OFFICE OF STATE AUDITOR/STATE AGENCIES REQUIRED TO PREPARE FINANCIAL STATEMENTS PRIOR TO AUDIT SECTION 27.1. G.S. 147-64.6 reads as rewritten:

"§ 147-64.6. Duties and responsibilities.

(c) The Auditor shall be responsible for the following acts and activities:

- (3) The Auditor, on the Auditor's own initiative and as often as the Auditor deems necessary, or as requested by the Governor or the General Assembly, shall, to the extent deemed practicable and consistent with the Auditor's overall responsibility as contained in this act, make or cause to be made audits of all or any part of the activities of the State agencies. Each agency or department receiving a financial statement audit by the Auditor under this subdivision shall prepare a financial statement and supplementary information in the format required by the Auditor. Financial statements and supplementary information prepared as required by this subdivision shall be completed and submitted to the Auditor not later than 60 days after the deadline for the agency's or department's Comprehensive Annual Financial Report submission as established by the State Controller.



2018 REVISED YB – CHAPTER 4

COMPETENCE & CONTINUING PROFESSIONAL EDUCATION

- Requirement Management Assigns Auditors To Conduct an Engagement Who Possess Competence Needed for Assigned Roles at Time of Assignment
- Concept of Competence Discussed in Application Guidance
 - Level of Proficiency
 - Competence of Specialists
- Requirements of Continuing Professional Education (CPE)
 - New 4-Hour Requirement in GAGAS Topics
 - Guidance Concerning Topics Required for 80-hour GAGAS CPE Requirements
 - Detailing Exemptions That May Be Granted in Certain Circumstances
- Elements of GAGAS CPE Guidance Incorporated in 2017 Revision



2018 REVISED YB – CHAPTER 5

QUALITY CONTROL & PEER REVIEW

- Requirement Modified Audit Organizations Obtain Written Affirmation of Compliance w/ Policies & Procedures From All Audit Organization Personnel Required to be Independent
- Requirement Audit Organizations Establish Policies/Procedures...Provide Reasonable Assurance Audit Organizations Undertake Engagements Only if Has Capabilities to Do So



2018 REVISED YB – CHAPTER 5

QUALITY CONTROL & PEER REVIEW

- Requirements Added & Guidance Provided for Engagement Performance, Documentation & Reporting **Including Requirements for Policies & Procedures Pertaining to Review & Supervision of Engagement Work**
 - **Require Experienced Team Members Review Work of Less Experienced Team Members**
 - **Assignment of Responsibility For Engagement Only to Team Partner or Director w/ Authority to Assume That Responsibility**
 - **Require Audit Org to Communicate Identity & Role of Engagement Partner/Director to Those Charged w/ Governance**
 - **Define the Responsibilities of Engagement Partner/Director & Communicate to That Individual**
 - **Require Reasonable Assurance That Appropriate Consultation Takes Place on Contentious Issues; Sufficient Resources...; Documentation/Agreement...; Conclusions Documented**
 - **Required Documentation for Terminated Engagements**

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2018 REVISED YB – WASTE/ABUSE

STANDARDS RELATED TO WASTE AND ABUSE

- Based on the Concept of “Accountability for Use of Public Resources and Government Authority”
 - No Requirement for Performing Specific Procedures,
 - May Communicate if Discovered
 - Has Material Effect on Financial Statements (Qualitative/Quantitative)
- Yellow Book Provides Guidance:
 - Financial Statement Audits – Chapter 6, paragraphs 6.21 – 6.24
 - Attestations and Reviews – Chapter 7, paragraphs 7.22 – 7.26
 - Performance Audits – Chapter 8, paragraphs 8.120 – 8.123

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STATE AUDITOR'S UPDATE

**ENTERPRISE RESOURCE
PLANNING/FINANCIAL BACKBONE
REPLACEMENT**

PRE-IMPLEMENTATION AUDIT



**ENTERPRISE RESOURCE PLANNING/
FINANCIAL BACKBONE REPLACEMENT**

**Enterprise Resource Planning/Financial Backbone
Replacement (ERP/FBR)**

- **Required by Statute**
- **State Controller, State CIO, Budget Director – Sponsors**
- **Responsible for Conducting the Planning and Design of an ERP,**
 - **By utilizing business process reengineering**
 - **To identify and organize processes and workflow**
 - **In order to prioritize and link work activities**
 - **To realize efficiencies and organize around outcomes.**



ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

The ERP system shall address, at a minimum,

- Core Financial Management,
- Grants,
- Assets,
- Inventory,
- Fleet Management, and
- Human Resource Management



ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

The Financial Backbone Replacement Project Focuses on the Replacement of:

- North Carolina Accounting System (NCAS) and
- State's Cash Management Control System



ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

Skepticism:

- **So Many Failed IT Projects in the State**
 - **Did Not Work**
 - **Unsuccessful Implementations**
- **Failures Were Costly**

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ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

State Auditor's Role:

- **Audit the Project**
- **Issues/Problems/Risks Assessed and Identified and Reported Sooner Rather than Later**

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ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

State Auditor's Approach:

- Continuous Audit Approach
- Findings/Issues Reported Along the Process
- Reporting Done In Memo
- Final Report at End



ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

OBJECTIVES:

- The ERP/FBR project is implemented in accordance with industry best practices for the System Development Life Cycle (SDLC)
- ERP/FBR project status and cost reports, as presented to the ERP Steering Committee, the General Assembly or to other management, are accurate, sufficient, and submitted in accordance with industry best practices and can serve as valuable management tools for project governance



ENTERPRISE RESOURCE PLANNING/ FINANCIAL BACKBONE REPLACEMENT

TO DATE:

- **Had to Play “Catch Up”**
- **One Memo Issued**
- **Second Memo Coming Soon**



STATE AUDITOR'S UPDATE

NORTH CAROLINA COMPLIANCE SUPPLEMENTS



NORTH CAROLINA COMPLIANCE SUPPLEMENTS

What is a Compliance Supplement?

- **Guide Created, First by Federal Government**
- **Used in Auditing (Federal) Assistance/(Federal) Grant Programs**
- **As Well as Respective Recipients**
- **Considered Most Important tool of Auditor Auditing Grants/Assistance**



NORTH CAROLINA COMPLIANCE SUPPLEMENTS

Purpose of a Compliance Supplement?

- **Single Programs**
- **Administered Across the Nation**
- **Audited by Hundreds of Different Auditors**
- **Need for Consistency**

NOTE: Burden is on Agency to Identify What They Want Auditors to Consider



NORTH CAROLINA COMPLIANCE SUPPLEMENTS

North Carolina Compliance Supplement?

- **Required by State Statute**
- **Provides Auditors of Local Governments and Not-For-Profits Guidance of What to Consider**
- **Federal Programs Passed Down/State Grants**



NORTH CAROLINA COMPLIANCE SUPPLEMENTS

Issues w/ North Carolina Prepared Compliance Supplement?

- **State Statute is Vague**
- **Preparers Have No Clue**
- **Not Reflective of Most Critical Issues**
- **Reflective of Issues Not Useful To Agency**
- **Not Timely**



NORTH CAROLINA COMPLIANCE SUPPLEMENTS

Results of Poorly Prepared Supplements

- Agency Lost Useful Tool
- Local Governments Audit Costs
- Programs Not Properly Administered

Note: Internal/External Audit Topic



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