



AUDITING STANDARDS

Changes Related to Financial Schedule Audits

Legislative Audit Division

OBJECTIVES

- Understand the audit process
- Understand changes in auditing standards



OVERVIEW OF AUDIT PROCESS

- Engagement
- Design Phase
- Fieldwork Phase(s)
- Report
 - Independent Auditor's Report (Opinion)
- Presentation to Legislative Audit Committee



LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDITS

- Biennial financial-compliance audits of each state agency conducted unless otherwise required by law (§ 5-13-304 (1), MCA)
 - Other types of Engagements
 - Financial Only
 - Financial-Related
 - Agreed-Upon Procedures
 - Statewide Audit
 - Single Audit



CHANGES IN AUDITING STANDARDS

- American Institute of Certified Public Accountants (AICPA)
 - Statements on Auditing Standards
 - Clarity Project
- U.S. Government Accountability Office
 - Government Auditing Standards (Yellow Book)
 - 2011 Revision



MAJOR CHANGES FINANCIAL SCHEDULE AUDITS

- AICPA
 - Financial Reporting Framework
- GAO
 - Independence
 - Non-audit services



SPECIAL PURPOSE FRAMEWORK

- Presentation on Basis Other than GAAP
- Five Types
 - Cash Basis
 - Tax Basis
 - Regulatory Basis
 - Contractual Basis
 - Other Basis
- Commonly referred to as:
Other Comprehensive Basis of Accounting (OCBOA)



SPECIAL PURPOSE FRAMEWORK

- Presentation on Basis Other than GAAP
- Five Types
 - Cash Basis
 - Tax Basis
 - **Regulatory Basis**
 - Contractual Basis
 - Other Basis



GAAP VERSUS REGULATORY BASIS

Financial Statements

- Independent Auditor's Report
- Management's Discussion & Analysis
- Financial Statements
- Notes to Financial Statements
- Supplementary Information (required and other)

Financial Schedules

- Independent Auditor's Report
- Financial-Schedules
 - Fund Balances/PHIT
 - Revenues
 - Expenditures
- Notes to Financial Schedules



REGULATORY BASIS

- Financial Schedule Format
 - Adopted by the Legislative Audit Committee in June 1996



REGULATORY BASIS

- Financial Schedules

- Result of accounting entries recorded on SABHRS without adjustments



INDEPENDENCE & NON-AUDIT SERVICES

○ Yellow Book Revisions

- Financial statement preparation is a non-audit service
- Management's Acceptance of Responsibility for Fair Presentation



INDEPENDENCE & NON-AUDIT SERVICES

- Financial Schedules
 - Management's Ability to Oversee
 - Department of Administration Agreement
 - Agency Certification by Designated Person

- Non-Audit Services Outlined in Engagement Letter



INDEPENDENCE & NON-AUDIT SERVICES

- Notes to the Financial Schedules
 - Auditors can no longer be involved

 - Notes should include informative disclosures
 - Similar to GAAP disclosures when appropriate
 - Other disclosures to achieve fair presentation

 - Resources:
 - GASB Checklist
 - AICPA Checklist



NOTES COMPARISON

Montana's 2013 Comprehensive Annual Financial Report

- Summary Significant Acct. Policies (basis of accounting)
- Other Acct. Issues
- Cash/Investments
- Accounts Rec./Pay.
- Capital Assets
- Retirement Plans
- Other Postemployment Benefits
- Risk Management
- Commitments
- Leases/Installment Purchases Payable
- State Debt
- Interfund Balances/Transfers
- Major Purpose Presentation
- Related Party Transactions
- Contingencies
- Component Units
- Material Violations of Finance-Related Legal Provisions



NOTES COMPARISON

Financial Schedules Note Template

- Summary of Significant Accounting Policies
 - Basis of Accounting
 - Basis of Presentation
- General Fund Balance
 - Positive or negative
- Direct Entries to Fund Balance



GAAP VERSUS REGULATORY BASIS

Financial Statements

- Opportunity to modify financial statements and notes

Financial Schedules

- Financial schedules presented without adjustment
- Opportunity to modify notes to the financial statements



SPECIAL PURPOSE FRAMEWORK AUDIT OPINION

- Independent Auditor's Report
 - Subheadings Required
- Minimum of Two Opinions
 - Adverse Opinion on Presentation in Accordance with Generally Accepted Accounting Principles
 - Opinion on Presentation in Accordance with the Regulatory Basis Special Purpose Framework



QUESTIONS?

