



otherwise noted. Second, the auditor states that nothing came to his attention that indicates that transactions not tested were not in compliance with applicable laws and regulations.

#### **What are findings?**

Audit findings are the results of reportable conditions the auditor has identified in his report on internal control and compliance. A finding is usually composed of four major elements:

**Criteria:** The basis for identifying that a condition is an internal control weakness or instance of noncompliance.

**Condition:** The internal control weakness or noncompliance identified by the auditor.

**Cause:** Explanation of why the weakness or noncompliance occurred.

**Effect:** The negative impact that resulted or could result from the condition.

**Recommendation:** The auditor's assessment on how to improve the condition.

**Management Response:** Management's viewpoint of the findings.

**Follow-Up:** The auditor's review of management's implementation of the recommendation.

# **Guide to Government Audits**

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*We strive for the highest quality output for the performance of our government to service and led those who shall hold it accountable*

## Government Auditing FAQs

### What is an audit?

Audits are independent assessments of the stewardship, performance, and cost of government policies, programs, and operations.

### What are the different types of audits?

**Financial Audits** include financial statement and financial related audits.

(1) Financial statement audits provide reasonable assurance about whether the financial statements of a government entity present fairly the financial positions, results of operations, and cash flows in conformity with generally accepted accounting principles.

(2) Financial related audits include determining whether (a) financial information is presented in accordance with established criteria, (b) the entity has adhered to specific financial compliance requirements, or (c) the entity's internal control structure over financial reporting and/or safeguarding of assets is suitably designed and implemented to achieve control objectives.

**Performance Audits** include economy and efficiency and program audits.

(1) Economy and efficiency audits include (a) whether the agency is acquiring, protecting, and using its resources economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

(2) Program audits include (a) determining the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (b) the effectiveness of organizations, programs, activities, or functions, and (c) whether the agency has complied with laws and regulations applicable to the program.

### Who performs audits?

External auditors are independent of the entities they audit. They are typically certified public accounting (CPA) firms or organizationally independent auditors such as the Public Auditor. External auditors are used to perform the annual audit of a government's financial statements.

### How do auditors obtain the information they need?

Auditors inspect, observe, confirm, and analyze data and information to gather evidence to support audit conclusions. Evidence can be documentary, testimonial, physical, or analytical and must be relevant, competent, and sufficient.

### What is materiality?

Materiality refers to the potential effect an error could have on the judgment or decisions of a user or persons relying on the financial information. Materiality is determined by both quantitative and qualitative factors.

### What are Internal controls?

Internal controls are the policies and procedures established by management to

ensure the accuracy and completeness of the information gathered by the accounting system for use in internal and external financial reporting.

### What is a reportable condition?

A reportable condition is defined as a significant deficiency in internal control over financial reporting or compliance.

### What is a material weakness?

A material weakness is a condition that could potentially result in the material misstatement of the financial statements.

### What are the auditor's reports on internal control?

The report on internal control briefly summarizes the auditor's testing of internal controls and describes any reportable conditions discovered as a result of the tests. If any of the reportable conditions are material weaknesses, the auditor is required to identify them. However, the auditor is not giving an opinion on the effectiveness of the internal controls.

### What are the auditor's reports on compliance?

The auditor indicates whether the entity audited is in compliance with applicable laws, regulations, contracts, and grant agreements, noncompliance of which could have an effect on the fair presentation of the financial statements. In a report on compliance, the audit makes two limited and specific assertions. First that the transactions tested were in compliance with applicable laws and regulations, unless