

# Financial Reporting Standards Board

## Internal Audit Guidelines

### *GAAP and Financial Statement Process*

These Internal Audit Guidelines provide a framework and a starting point for Internal Auditor's responsibility regarding the GAAP reporting-related audit required by the Financial Reporting Standards Board Act (30 ILCS 30/20). These guidelines address some, but not necessarily all, of the topics and items that should be considered when developing your agency-specific audit program. These guidelines are not to be used as the audit program. According to the auditing standards adopted by the State Internal Audit Advisory Board (SIAAB) each internal audit function must evaluate its own agency, operations, risks and controls in assessing audit risks, and determine acceptable levels of risk. The internal audit function is also responsible for determining the areas to be tested, the extent to which they are to be tested, and for evaluating those results. The Financial Reporting Standards Board may choose to update or modify these guidelines, but it is incumbent upon each internal audit function to formulate an audit approach, develop appropriate audit programs, and execute each audit with independence, objectivity, due professional care and due diligence. The use of these guidelines alone may not necessarily result in the achievement of these objectives.

Throughout the fiscal year as internal audits are conducted, internal auditors should consider including audit steps or procedures to identify any weaknesses which may result in substantially inaccurate information being reported and included in the department's year-end financial reporting (GAAP) process. Any significant weaknesses identified in these audits that appreciably impact the information to be reported in the year-end financial reporting process which have not been resolved or corrected should also be included in the agency's internal audit of the GAAP and financial statement process report to the Financial Reporting Standards Board.

1. Guidelines for timing of audit- internal audit should be submitted no later than May 31<sup>st</sup>, for the preceding fiscal year.
2. Guidelines for testing to be performed
  - a. Deadlines
    - i. Procedures should be performed to determine whether the agency met the applicable deadlines for submission of the following documents:
      1. Compensated absences (SCO580)
      2. Leases (SCO560)
      3. Capital assets (SCO537/538)
      4. Interfund transactions (SCO567/568 transactions)
      5. GAAP packages (Various WEDGE and manual GAAP forms), including "accrual only" packages
      6. Responses to written review comments – within 5 working days of receipt

7. Draft financial statements and footnotes, if applicable
- b. Data accuracy
- i. Using a risk-based approach, procedures should be performed to determine whether the agency has supporting documentation for amounts reported on GAAP forms. Supporting documentation should refer to agency records/documents (not other GAAP package forms). Supporting documentation should be available for all adjusting and reclassifying entries made to the cash basis financial statements, including support for cash in transit and vouchers in transit.
  - ii. Using a risk-based approach, procedures should be performed to review revisions or adjustments made to the originally submitted GAAP forms to determine why they were necessary and if the GAAP reporting process can be improved to avoid the necessity for similar adjustments in future reporting cycles. Examples include:
    - Revisions of GAAP forms submitted to the IOC by an agency after the initial submission date
    - Adjustments to GAAP forms relating to review comments by IOC staff
    - Adjustments to GAAP forms relating to audit adjustments
- c. Documentation of agency procedures – Testing should be performed to determine if written procedures exist, specific to the agency, documenting the process for the preparation of GAAP forms and financial statements/footnotes.
- d. Review process – Procedures should be performed to determine whether the segregation of duties is adequate in reducing risk to an acceptable level, including a documented internal secondary review of the preparation of GAAP forms and financial statements/footnotes.
- e. Documentation of staffing
- i. Procedures should be performed to document the structure of the GAAP reporting team, as well as the education and experience levels of the staff involved in the GAAP and financial reporting process. At a minimum, the documentation should include:
    1. Current number of staff
    2. Number of vacancies your agency is actively seeking to fill in relation to the GAAP and financial reporting process
    3. Whether or not your agency regularly uses contractual assistance in the preparation and/or review of the GAAP package submissions
    4. For each member of the GAAP reporting team (names of individual employees need not be included in the report submitted to the Financial Reporting Standards Board):
      - Job title or position
      - Education

- Years of experience related to governmental accounting/financial reporting
  - Years of experience related to GAAP package/financial statement preparation for the State of Illinois
  - Other relevant education/experience
- ii. Procedures should be performed to determine, using the professional judgment of the internal auditor, whether there is adequate staffing for the preparation of GAAP forms. Consideration should also be given as to whether sufficient staffing exists to allow for secondary review of the preparation of GAAP forms and to allow for cross training among those staff.
- f. Documentation of potential future risks – procedures should be performed to determine if potential future risks could occur that would prevent the agency from preparing accurate and timely financial information. Examples would include upcoming retirement of significant staff, agency restructuring, significant new GASB pronouncements, etc.
3. Guidelines for report format –Reports should be submitted to the Illinois Office of the Comptroller via a secure email to [FinancialReporting@mail.ioc.state.il.us](mailto:FinancialReporting@mail.ioc.state.il.us), or an alternative submission method preapproved by the Illinois Office of the Comptroller. The following information should be included in the report submitted to the Financial Reporting Standards Board.
- a. Summary of the objectives and testing performed.
  - b. Summary of findings related to the testing performed. Material findings related to the testing performed should include, but not be limited to, the following 6 elements:
    - i. Condition found
    - ii. Criteria
    - iii. Cause
    - iv. Effect
    - v. Recommendation
    - vi. Corrective action plan
  - c. Summary of the structure of the GAAP reporting team, as detailed in section 2e. These guidelines are effective for audits of GAAP forms submitted after June 30, 2014. Early implementation is permissible.

If there are any comments, concerns, or questions, please contact:

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