STATE AUDITOR'S OFFICE
CONSIDERATION OF POTENTIAL ERRORS AND IRREGULARITIES

A. When the application of audit procedures detects conditions or circumstances that differ adversely from the auditor's expectations, the auditor should:

1. Reconsider the scope of planned audit procedures.
2. Reconsider assessment of the risk of material misstatement made during audit planning.

The following adverse circumstances and conditions should cause the auditor to reconsider scope, and to reconsider risk assessments:

a. Analytical procedures disclose significant differences from expectations.
b. Differences between reconciliations of a control account and subsidiary records or between an asset count and a general ledger account are not appropriately investigated and corrected on a timely basis.
c. Confirmation requests disclose significant differences or yield fewer responses than expected.
d. Transactions selected for testing are not supported by proper documentation or not appropriately authorized.
e. Supporting records or files that should be readily available are not promptly produced when requested.
f. Errors are detected in audit tests that apparently were known to agency personnel, but were not voluntarily disclosed to the auditor.

B. In evaluating audit test results, the auditor should consider the significance of differences detected between the accounting records and the underlying facts and circumstances established by the auditor's procedures.

1. Consider the quantitative and qualitative aspects of audit differences and whether they are indicative of an error or irregularity.

2. If the auditor determines that an audit difference is, or may be, an irregularity, but has also determined that the effect on the financial statements could not be material, the auditor should:

    a. Inform the audit manager so that the audit manager and/or the State Auditor can refer the matter to an appropriate level of management that is at least one level above those involved.
    b. Be satisfied that in view of the organizational position of the likely perpetrator, the irregularity has no implications for other aspects of the audit or that those implications have been adequately considered.

3. If the auditor has determined that an audit difference is, or may be, an irregularity and has either determined that the effect could be material or has been unable to evaluate potential materiality, the auditor should:

   a. Consider the implications for other aspects of the audit.
   b. Inform the audit manager so the audit manager and/or the State Auditor can discuss the matter and the approach to further investigation with an appropriate level of management at least one level above those involved.
   c. Attempt to obtain sufficient competent evidence to determine whether in fact material irregularities exist and, if so, their effect.
   d. If appropriate, the State Auditor will suggest that the agency consult with legal counsel on matters concerning legal questions.

CONSIDERATION OF POTENTIAL ILLEGAL ACTS

A. In applying audit procedures and evaluating the results of those procedures, the auditor may encounter specific information that provides evidence concerning possible illegal acts. Some examples are:

   1. Unauthorized transactions, improperly recorded transactions, or transactions not recorded in a complete or timely manner so as to maintain accountability for assets.
   2. Investigation by another governmental agency, a law enforcement agency, or an enforcement proceeding.
   3. Violations of laws, or regulations cited in reports of examinations by grantors or regulatory agencies that have been made available to the auditor.
   4. Large payments for unspecified services to consultants, affiliates, or employees.
   5. Payments which seem excessive in relation to the goods or services actually received.
   6. Failure to file required financial reports to grantors.
   7. Failure to maintain documentation substantiating the existence of employees and others who receive regular payment from the agency.
   8. Failure to produce documentation supporting large or unusual transactions.

B. When the auditor becomes aware of specific information that provides evidence concerning a possible illegal act, the auditor should inform the audit manager. The audit manager should inform the State Auditor so that the State Auditor can determine our approach to inquiring with management at a level above that of those potentially involved in illegal acts. If management fails to provide satisfactory information the State Auditor should:

1. Consult with the Attorney General or other specialists about the application of relevant laws and regulations to the circumstances and the possible effects on the financial statements.
2. Direct that the auditor apply additional procedures, if necessary, to obtain an understanding of the nature of the acts, such as the following:

    a. Examine supporting documents, such as invoices, cancelled checks, and agreements and compare with accounting records.
    b. Confirm significant information concerning the matters with other parties to the transactions or with intermediaries, such as banks or lawyers.
    c. Determine whether the transactions have been properly authorized.
    d. Consider whether other similar transactions or events may have occurred and apply procedures to identify them.

I have thoroughly read the above and understand my responsibility in the event I, during the course of my work on this audit, discover any evidence which leads me to suspect that errors, irregularities, or illegal acts may have occurred:

Audit Manager ______________________________

Auditor In-Charge ______________________________

Audit Staff:

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________