



Audits

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AUDITS



OBJECTIVES

Participants will learn about an audit:

- Definition
- Purpose
- Frequency
- Audit process
- Reporting
- Preparation
- Benefits
- Agreed Upon Procedures



AUDIT DEFINED

- Systematic process
- Objectively obtaining and evaluating evidence regarding assertions about economic actions and events
- Ascertain the degree of correspondence between those assertions and established criteria
- Communicating the results to interested users



AUDIT FREQUENCY

- Ohio law – biennial (unless required annually or Agreed Upon Procedures are allowable)
- Single audit – annual
 - \$750,000
- As Requested
 - By government
 - Auditor of State



IPA AUDIT

- Auditor of State request
- Client request
- Auditor of State approves scope of audit
- Three Party Contract



QUIZ

A public entity must be audited

- A) Every year
- B) Every 3rd year
- C) Every 2 years if single audit
- D) Never
- E) Every 2 years



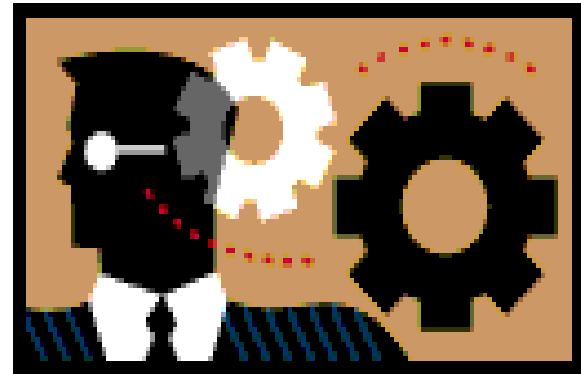
PURPOSE OF AN AUDIT

- Expressing an independent opinion
- Add credibility to financial statements
 - Whether the financial statements comply with established criteria
- Management's assertions underlying the information included in the financial statements.



AUDIT PROCESS

- Planning
- Internal control testing, if applicable
- Substantive testing
- Compliance testing
- Reporting



QUIZ

True or False –

The purpose of an Audit is to detect Fraud.



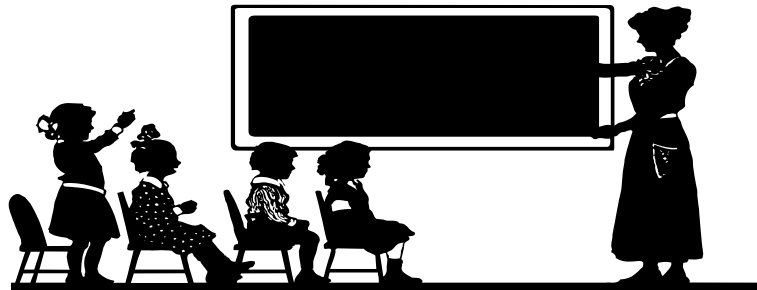
PLANNING

- Perform procedures to identify risks (i.e. minutes review, analytics, internal control documentation, fraud inquiries, etc.)
- Assess risk of material misstatement for each account balance/transaction class (inherent risk and control risk)
- Develop audit approach to achieve low overall audit risk (detection risk).

INTERNAL CONTROL TESTING

Varies depending upon:

- Audit approach
 - Less control testing = More substantive testing
 - More control testing = Less substantive testing
- Type of Audit
 - Required to achieve Low Control Risk if Single Audit



ASSESSING CONTROL RISK

- In Place vs. Operating Effectively
- Effect on nature, timing and extent of substantive procedures
 - Maximum control risk = rely solely substantive testing
 - Below the maximum = rely partially on control testing and partially on substantive testing
 - Low = mainly rely on effective operation of internal controls

SUBSTANTIVE TESTING

- Systems derived
 - Utility billing
 - Payroll
- Non systems derived
 - Debt
 - GAAP accruals



TYPES OF SUBSTANTIVE TESTS

- Tests of Details
 - Confirmation
 - Inspection
 - Vouching
- Analytics



COMPLIANCE TESTING

- State Laws and Regulations
- Federal Laws and Regulations
- Significant Contracts

REPORTING

- Financial Statement Opinion
- GAGAS Report – (a.k.a. Yellowbook Letter)
- Single Audit Report – (a.k.a Uniform Guidance report)
- Management Letter
- Verbal comments

OPINION

- Management's F/S
- Auditing Standards
- Basis of Accounting
- Audit Opinion

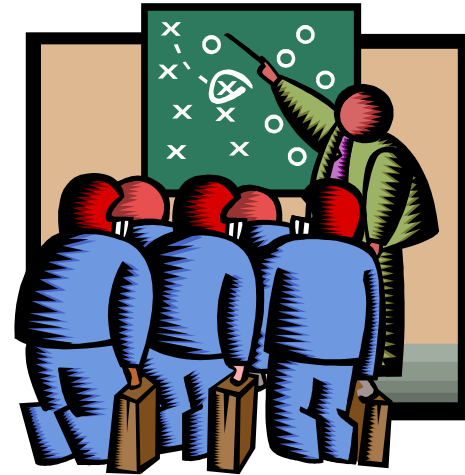


GAGAS AND SINGLE AUDIT REPORTS

- Material noncompliance or significant internal control deficiencies
- Two paragraphs each
 - Compliance
 - Controls

MANAGEMENT LETTER

- Immaterial Items
 - Control Deficiencies
 - Noncompliance



QUIZ

True or False?

Since an auditor performs my annual audit, the ultimate responsibility for the financial statements rests with the auditor



PREPARING FOR AN AUDIT

- Reconciliations
- Annual Report
- Policies and procedures
- Maintain public records
 - Including service organizations



BENEFITS OF AN AUDIT

- Credibility of financial statements
 - Constituents
 - Bankers, Insurance Company, Creditors, Bond Raters
- Control dimension
 - Independent check on information against criteria
 - Motivates preparer to prepare accurate information
 - Motivates staff to be diligent in carrying out duties

