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# AUDITS

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# 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 in Fed Exp
- 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 3<sup>rd</sup> year
- C) Every 2 years if single audit
- D) Never
- E) Every 2 years



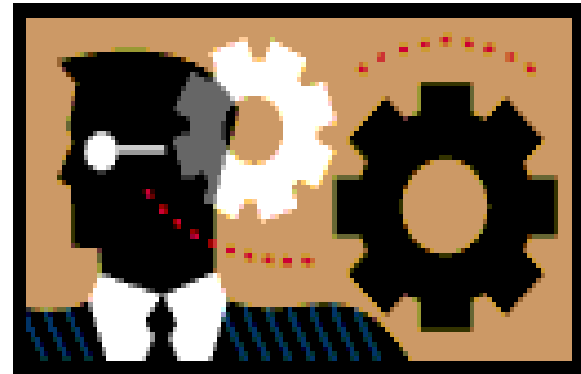
# PURPOSE OF AN AUDIT

- 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.



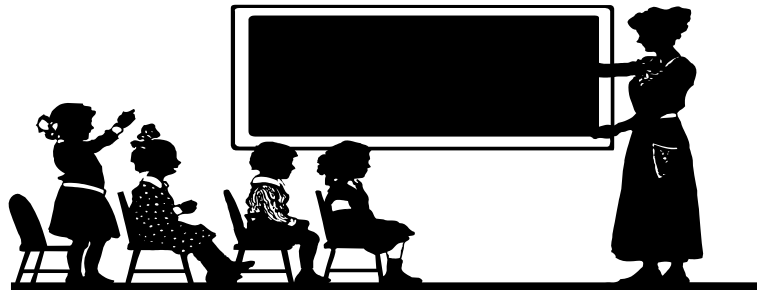
# PLANNING

- 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 on 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

- “Detail testing”
  - Verify the balances, transactions, and disclosures of financial statements
- Systems derived
  - Utility billing
  - Payroll
- Non systems derived
  - Debt
  - GAAP accruals



# TYPES OF SUBSTANTIVE TESTS

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



# COMPLIANCE TESTING

- State Laws and Regulations
  - Budgetary, Deposits of public money, Public records laws, etc.
- Federal Laws and Regulations
  - Single Audit
- 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
- Includes/Defines other matters, specifically RSI and SI

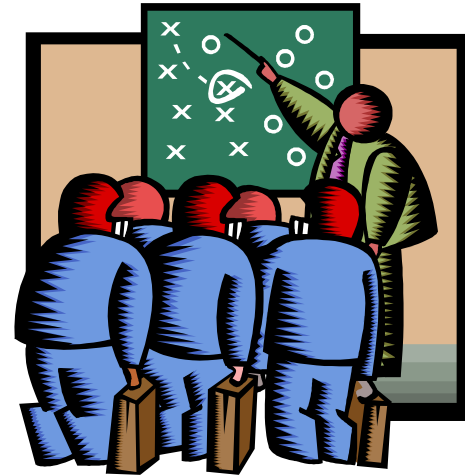


# GAGAS AND SINGLE AUDIT REPORTS

- Material noncompliance or significant internal control deficiencies
- GAGAS Sections
  - Internal Control of Financial Reporting
  - Compliance and Other Matters
  - Purpose of the Report
- Single Audit
  - Compliance for each Major Program
  - Internal Control over Compliance
  - Management & Auditor Responsibilities

# MANAGEMENT LETTER

- “Less” Material Items
  - Control Deficiencies
  - Noncompliance
  - Unadjusted Differences
  - Strong Recommendations



# 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

- Minutes, resolutions, ordinances
- Reconciliations
- Annual Report
- Budgetary Information
- Policies and procedures
- Payroll Records
- Accessibility to Accounts Payable information
- Significant Revenue support documentation (ie. Tax settlements)
- Maintain public records
- Service Organizations – SOC I, Type II reports



# 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



# QUESTIONS?

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