

All About Audits

MTAW 2024 Spring Conference





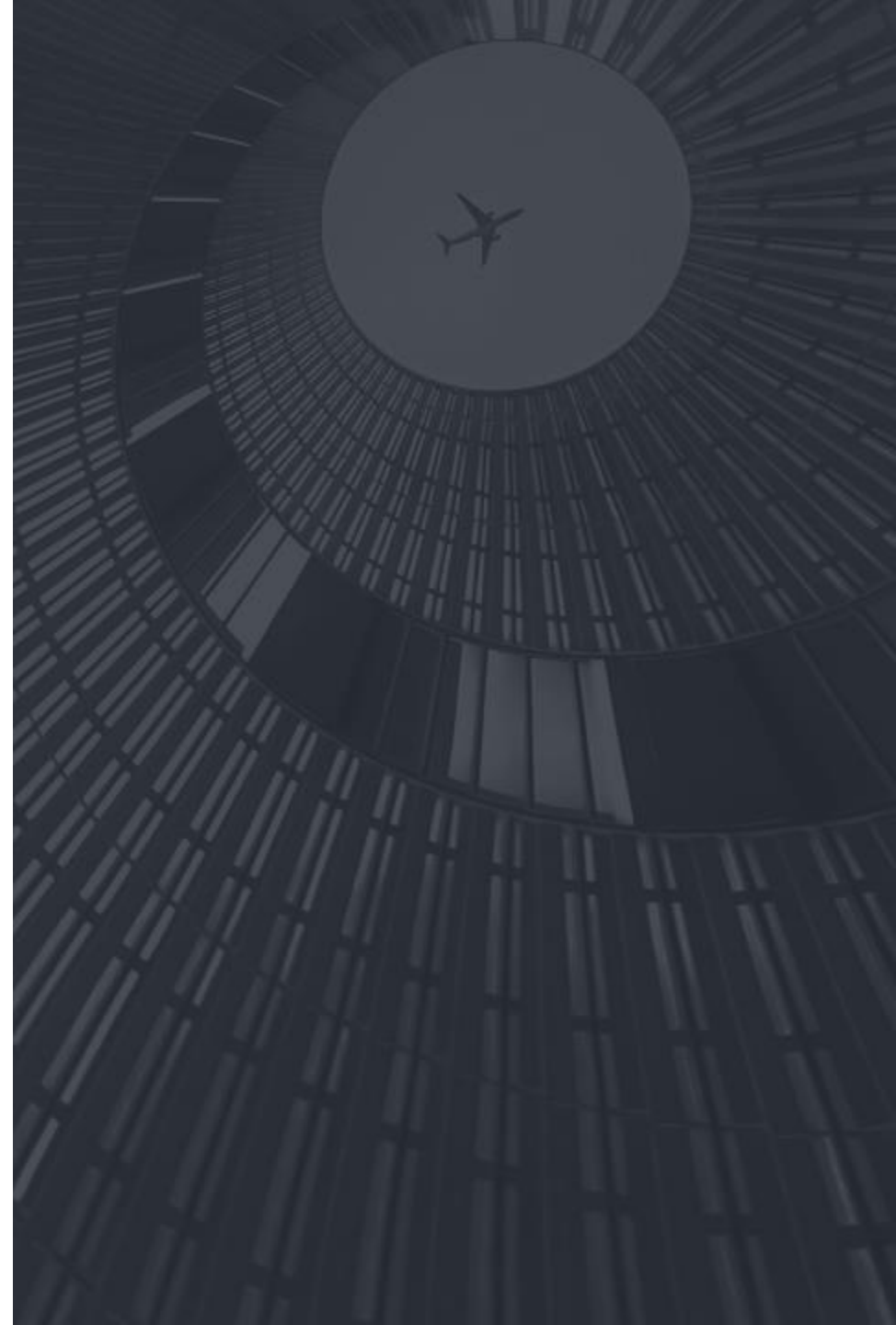
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Agenda:

- 1. Audit Process Overview**
- 2. Key Concepts of Internal Control**
- 3. Considerations on Upcoming Audits**
- 4. Questions/Open**

Audit Process Overview



Who is required to have an audit?

- All towns, villages and cities with populations of 25,000 or more
- Towns with a combined clerk and treasurer office as provided by state statute s.60.305 (1) (a)
- If you receive/spend over \$750,000 or more in federal funds
- If required by local ordinance or debt resolution

Types of audits:

- Financial audits
 - Goal is to obtain reasonable, not absolute, assurance that the financial statements are fairly stated (free of material misstatement)
- Performance or operational audits
 - Narrowed focus, driven by specific need
- Compliance audits
 - Purpose is to evaluate and report on whether the entity has complied with applicable laws, regulations and agreements
 - Usually includes a review and evaluation of internal controls
 - Examples – federal and state single audits

Responsibilities in a financial audit:

- Management
 - The content of the financial statements
 - Preparation and fair presentation
 - Design, implementation, and maintenance of relevant internal controls
- Auditors
 - To express an opinion on the financial statements based upon the audit
 - Plan and perform the audit in accordance with applicable standards to obtain reasonable assurance that the financial statements are free from material misstatement.
 - Communicate significant matters related to the audit

Audit methods

- Used to verify Management assertions
 - Existence or occurrence
 - Completeness
 - Rights and obligations
 - Valuation or allocation
 - Presentation and disclosure
- Ways to verify Management assertions
 - Inspection
 - Observation
 - Inquiry
 - Confirmation
 - Analytical tests

What an audit isn't:

- A detailed review of every transaction
- A fraud investigation
- Meant to cause you a year of worry
- Days of nonstop stress during fieldwork
- Looking for “gotcha moments”



Phases of a financial audit

Planning

Preliminary Fieldwork

Interim

Final Fieldwork

Issuance/Wrap Up



Audit Phases

- Planning
 - Mainly an auditor process
 - Scheduling fieldwork and creating a time line
 - Entrance Conference is held to discuss significant changes, financial impacts, and plans for final fieldwork



Audit Phases

- Preliminary fieldwork
 - Focusing on internal controls and processes
 - May look at numbers analytically, but no testing on balances
 - Walkthroughs performed
 - Test of Controls performed
 - Annual fraud interviews
 - This is a good time to bring up new, unusual activities and ask questions about the process



Audit Phases

- Interim
 - Auditor finishing the planning process
 - Sending out confirmations
 - Walkthroughs performed
 - Municipality working through collecting items for final fieldwork and reconciling accounts
 - Open communication between municipality and auditor



Prior to Final Fieldwork important to-do's

- Record transactions
 - Bank activity
 - Year-end accruals
 - AP/AR
 - Additional checks/receipts
 - Accrued interest
 - Payroll
 - Debt payments
 - Annual billings & allocations
- Reconcile accounts
 - All cash accounts to bank statements
 - Investments to statements
 - Accounts receivable to sub ledgers
 - Accounts payable to sub ledgers
 - Tax receipts and billing
 - Utility billing
 - Interfunds

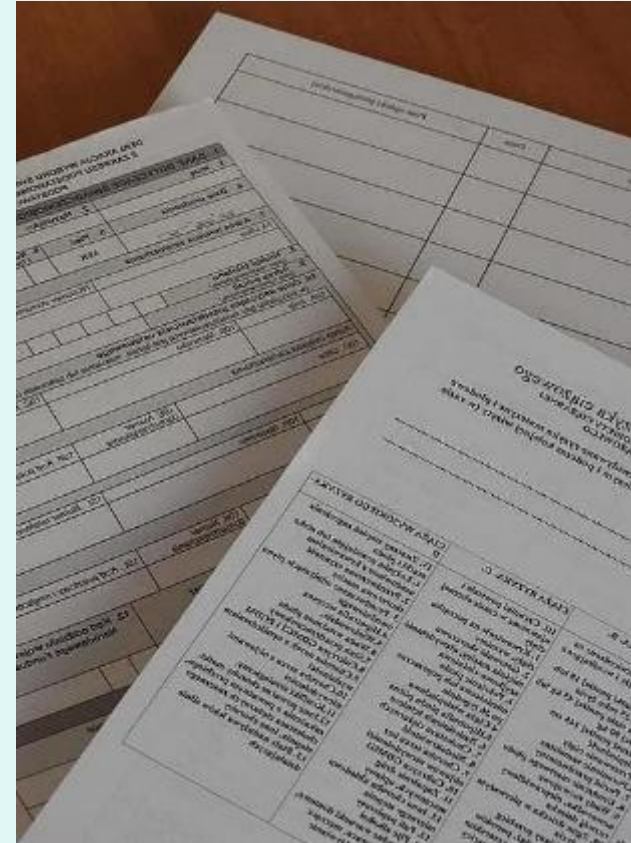
Audit Phases

- Final fieldwork
 - Testing of balances using audit methods
 - Requests for documentation and items that support balances in the general ledger
 - Review general ledger for reasonableness
 - Analytical review of accounts to prior year or budget



Audit Phases

- Issuance/Wrap Up
 - Clearing open items
 - Financial statement preparation or review
 - Review and quality review phases
 - Draft Meetings
 - Obtain Management Representation Letter and Attorney Representation Responses
 - Issue Opinions
 - Presentation to the Board
 - Preparation of State Report or Tax 16



Ways to help your audit go well:

• 1- Be prepared

- Make sure all key people are available and know we are coming
- Make sure all known journal entries are posted and trial balances are ready for import
 - Accounts are reconciled and accrual entries are made
- Supporting documentation is ready and available
- New or unusual transactions have been analyzed

• 3 - Ask questions

- Ask to go through any entries to help understand calculations and reasoning
- If you feel you need assistance in year-end preparation, don't hesitate to ask beforehand
- If you aren't understanding what we are asking or looking for – let us know
- If you are unsure of an audit request – ask for the prior year workpaper

2 - Be organized

- Organize your files
- Compile files and work papers electronically for easy viewing and sharing
- Prepare an audit folder for your reference in future years
 - include copies, work papers and supporting documentation requested during the audit
 - Request copies of workpapers that were updated during the audit so you can start with the best information next year



4 - Give suggestions and feedback!

- Let us know if something is missing on the request list
- Share if there is a better way to run or share reports

Questions for the Group

- What is the biggest stressor when it comes to your audit?
- What are any tips/tricks you have learned that help prepare or make the audit less stressful?
- Who from your audit team is your main contact (Partner, Manager, in-charge auditor)?



Key Concepts of Internal Control



Definition of Internal Control

Internal control is a **process** effected by an entity's oversight body, management, and other personnel **that provides reasonable assurance the objectives of an entity will be achieved.**

Simply put, it is a mechanism used to prevent, detect or correct an undesirable outcome

Trust is not an internal control

What is internal control structure?

Organizational Goals:

Accurate Financial Records
Regulatory Compliance
Asset Security
Operating Efficiencies

Internal Control Structure - developed and put in place to achieve organizational goals

Control Environment	Risk Assessment	Information and Communication	Monitoring	Control Activities
integrity competence operating style organizational structure governing body oversight	identification of risks and designing control activities to address these risks	system of recording, tracking, reporting and reviewing information (manual and computerized)	system to ensure new risks are addressed and control activities are followed	policies and procedures established to address risks including: <ul style="list-style-type: none">- performance evaluations <i>system to monitor employee achievement of management expectations</i>- information processing <i>procedures that check the accuracy of data</i>- physical safeguards <i>over items such as inventory, capital assets and cash</i>- segregation of duties <i>separation of employee responsibilities to establish checks and balances</i>



Preventive controls – attempt to deter or prevent undesirable events from occurring

Segregation of duties

Approval, Authorization and Verification Process

Training

Adequate documentation

What are segregation of duties?

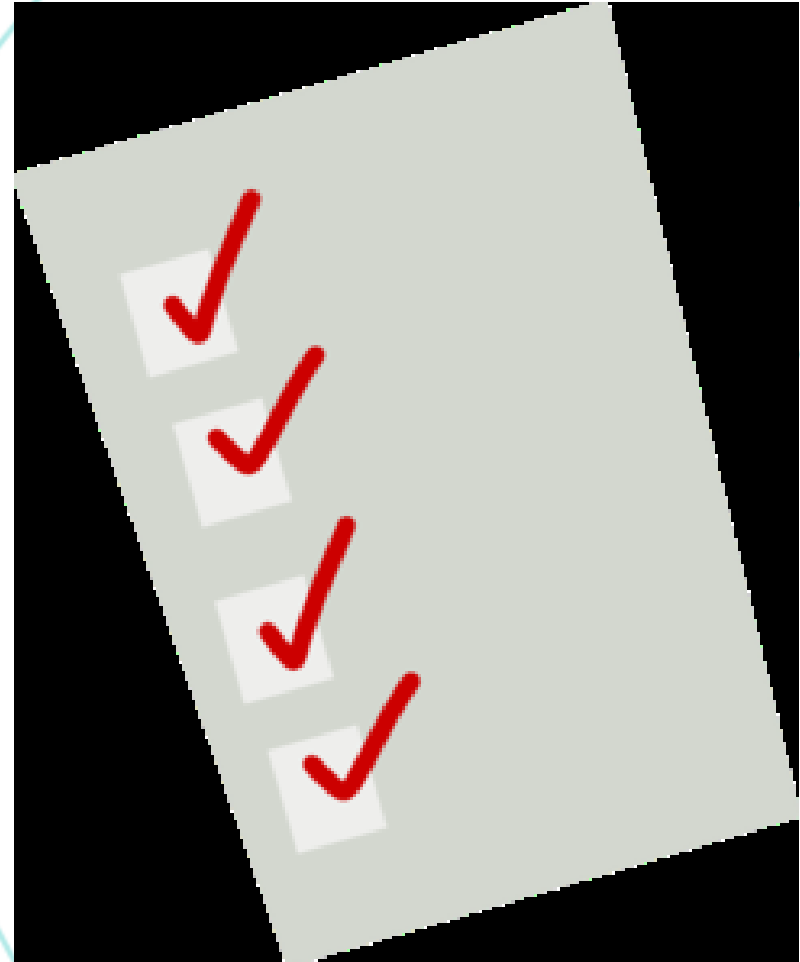
The separation of tasks in the accounting and recordkeeping process so that no one individual handles an entire transaction from beginning to end.

Segregation of duties is crucial to an organization's system of internal controls and if can't be achieved, what can be done to reduce risk.

What are segregation of duties (cont.)?

Why is it so important?

1. Provides a process to identify errors
2. Reduces opportunities for committing fraud



Detective controls - attempt to detect undesirable acts after the fact

Assessment of current controls

- Identify weaknesses/gaps

Account reconciliations

- Monthly reconciliation of accounts and review of reconciliations
- Review of journal entries
- Investigate differences to GL
- Variances analysis compared to PY or budget

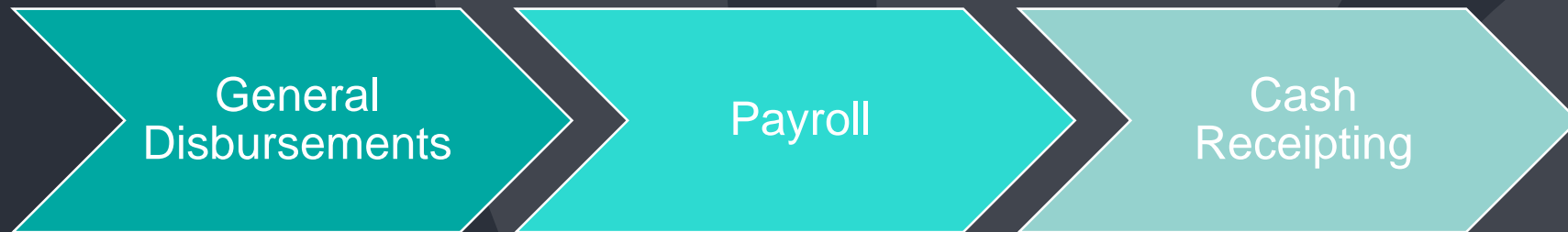
Internal Audit

- Quality control checks
- Inventory counts

Internal Controls as part of the audit

- Audits are focused on where the risk lies
- If there is a proper system of internal control in place – the level of risk can be reduced
- Typically at preliminary fieldwork, the audit team will gain an understanding of the processes and controls in place and perform walkthroughs as necessary

Key Internal Controls



General disbursements

New vendors

- Form to gather data for issuing 1099 requires approval
- Quarterly produce report of new vendors for review/approval
- Approval by someone who doesn't order goods or process payments

Payment of invoices

- Approval by authorized individuals (Comptroller's office)
- Approval by governing body
- Separate ordering from recording transactions



General disbursements

ACH payments or wire transfers

- One person sets up and another releases
- Both have individual login/password with bank

Retainages on projects

- Any open project at year end should have invoices reviewed for retainages (work completed but amount not due until contract complete) for accrual



General disbursements

Purchase order process

- Person ordering or receiving goods/services should be separate from person processing accounts payable
- Vendors should be reviewed and approved

Reconciliation to general ledger

- Monthly/quarterly reconcile accounts payable listing to general ledger
- Investigate any differences
- Documentation of reconciliation should be kept



Payroll

New employees

- Approval of position, salary or wage, etc.
- Done by manager or governing body
- Review information in system is accurate

Pay changes

- Approval of all changes (annual or mid-year)
- Done by manager or governing body
- Review information in system is accurate
- Ensure effective date is appropriate



Payroll

Timesheets

- Approval by supervisor for all hourly employees
- Supervisor may not approve own timecard
- Include review of where time is charged (projects, maintenance, operations, etc.)

Overall payroll approval

- Total of direct deposits and payroll checks matches payroll register
- Withholdings appear reasonable
- Completed by someone who does not prepare payroll



Cash receipting

Billing vs receipting

- Separate the functions when can
- Require use of receipt register or receipt system

Reconciliations

- Monthly reconcile billing system detail to general ledger (batch collections & tax refund overpayments)
- Investigate any differences



Cash receipting

Journal Entries

- Review and approval of journal entries to record taxes receivable and tax settlements

Account adjustments or write offs

- Policy for who can authorize
- Document reason and approval



What is a control deficiency?

When the *design* or *operation* of a control does not allow management or employees, in the normal course of performing their assigned functions, to **prevent or detect and correct misstatements on a timely basis.**

In other words...

When something does or could go wrong.

Action...



Identify what could go wrong in your organization



Design procedures to mitigate risk – to prevent or detect and correct potential errors



Document the process and the execution (operation)

Considerations for Upcoming Audits



Efforts related to new Standards

Already implemented

- GASB 87 – *Leases* (implemented 12/31/22)
- GASB 96 – *Subscription-Based Information Technology Arrangements* (implemented 12/31/23)

Upcoming implementation

- GASB 100 – *Accounting Changes and Error Corrections* (effective 12/31/24)
- GASB 101 – *Compensated Absences* (effective 12/31/24)

**Questions/
Open
Discussion**

