



# Why Should Our Town Have an Audit?"

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# IS IT REQUIRED?

## 60.43 Financial audits.

### AUDIT OF COMBINED CLERK AND TREASURER OFFICE.

If the offices of town clerk and town treasurer are combined under s.60.305 (1) (a), the town board shall arrange for an audit of the town financial records at least once every year.

If required – you have no choice – make the best of it!

If not – may benefit from an audit – we will talk about why

If not – may benefit from one of the options we will discuss

# AUDIT – WHAT IS IT?

Provides assurance that audited financial statements and disclosures are presented in accordance with generally accepted accounting principles or other basis of accounting (cash, modified cash)

Provides assurance that those financial statements are not materially misstated whether due to errors or fraud

# AUDIT – WHAT IS IT?

Does an audit provide absolute assurance?

NO

Is an audit designed to detect Fraud?

NO

An audit is designed to provide assurance to the user, via an opinion from the auditor, that the financial statements are “free of MATERIAL misstatement from GAAP”

THINK HARD ABOUT WHAT AN AUDITORS OPINION ACTUALLY SAYS!

# AUDIT BENEFITS

Intended to enhance confidence that users can place on management-prepared financial statements

Most important party served by the auditors is the public – taxpayers

People work very hard for their money. They need to feel “assured” that information that they are looking at is reasonably accurate and being used as budgeted.

# AUDIT BENEFITS

Demonstrates your fiduciary responsibilities:

Duty to the public

Accountability

Tone at the Top

Internal Control

# HOW TO SELECT AN AUDITOR

Request for proposal

Evaluate –

- Technical competence

- Experience

- Fees (should not be only factor)



# HOW TO SELECT AN AUDITOR

Auditor should provide guidance and suggestions -

Operating procedures

Internal control

Significant deficiencies

Statutory compliance

# PREPARING FOR AN AUDIT

Here are some simple steps to prepare for an audit that will make the audit process more effective and efficient, decrease the amount of time the auditors are on-site, minimize the disruption to your operations, and increase the likelihood that the audit yields valuable benefits to the auditee.

# PREPARING FOR AN AUDIT

Designate a principal liaison person(s) to work with the auditors - this person should be responsible for ensuring the auditor's have access to records and files they need as well as directing the auditors to the appropriate responsible individual to learn about program operations or to answer questions.

# PREPARING FOR AN AUDIT

Arrange suitable on-site office space for the auditors that they can use for the duration of their fieldwork - the space should be reasonably accessible to the records and people they will interact with.

# PREPARING FOR AN AUDIT

Organize your financial records, computer files, etc. before the auditors arrive - audits by nature are a documentation driven process - having your information organized and accessible will make the process easier for both the auditors and auditee. If any records applicable to the audit period are stored off-site, arrange to have the records returned, if possible, or make arrangements to allow retrieval on a timely basis.

# PREPARING FOR AN AUDIT

Have copies of prior year financial statements, financial statement worksheets, audit reports etc. for the auditors.

Recognize that the agency's financial statements are the responsibility of auditee management - the auditor's responsibility is to audit, not prepare the financial statements. Inform the auditors of your schedule to close your books, prepare draft financial statements and complete supporting schedules.

# PREPARING FOR AN AUDIT

If the audit involves federal funds, accumulate communications from the federal grantor regarding new requirements or changes in program operations, assemble reports filed with the federal grantor, accumulate relevant compliance requirements, and provide copies of any audit reports performed by the federal government or official communications from the federal grantor.

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# PREPARING FOR AN AUDIT

If a computer system is key to your operations, arrange for a person knowledgeable about the computer system to be available to explain the system's operations and to facilitate retrieval of data and generation of reports.

# PREPARING FOR AN AUDIT

Identified key internal controls in your operations and whether they are effective.

Includes things such as who does bank reconciliations, approval of invoices for payment

Auditor will help with this.

# PREPARING FOR AN AUDIT

Schedule time to meet with the auditors periodically throughout the audit to learn about the progress of the audit, facilitate communication, resolve issues on a timely basis, and correct any misunderstandings.

# PREPARING FOR AN AUDIT

These are general steps recommended to prepare for an audit. Specific steps and information requests that are unique to your audit will be communicated to you as part of the initial contact and planning meeting with the auditors.

# OTHER OPTIONS

Compilation

Review

Agreed Upon Procedures

# COMPILATION

Presenting in the form of financial statements information that is the representation of management *without undertaking to express any assurance on the statements*”

No assurance

Preparation of Report Form C is frequently a compilation service

# COMPILATION

Accountant Gains -

Knowledge of accounting principles, practices in industry

Understanding of entity's transactions, accounting records, & qualifications of accounting personnel

# COMPILATION

States explicitly that –

Audit not performed

Opinion not expressed





# REVIEW

## Procedures

- Inquiries

- Analytical procedures

## Report

- Negative assurance

- Accountant “not aware of any material modifications” necessary for GAAP

# REVIEW

Analytical procedures to identify unusual matters

Compare current to prior period financials

Compare financial to budgets, forecasts

Study relationships for predictable patterns

# REVIEW

Inquiries about

Accounting principles, practices, GAAP

Actions of Board

Changes in operations or accounting principles

Questions, concerns

Subsequent events



# REVIEW

May also include review of documentation for significant balance sheet or revenue or expenditure amounts –

Cash

Property Taxes

# AGREED UPON PROCEDURES

Procedures are engagement specific

Procedures not sufficient to express opinion

Provides limited assurance



# AGREED UPON PROCEDURES

Examples –

Review of 12 months bank statements and reconciliations

Review of 4 months of cancelled checks and trace to approved invoice

Review of property tax revenue levy, trace to deposits in bank, reconcile to financial records

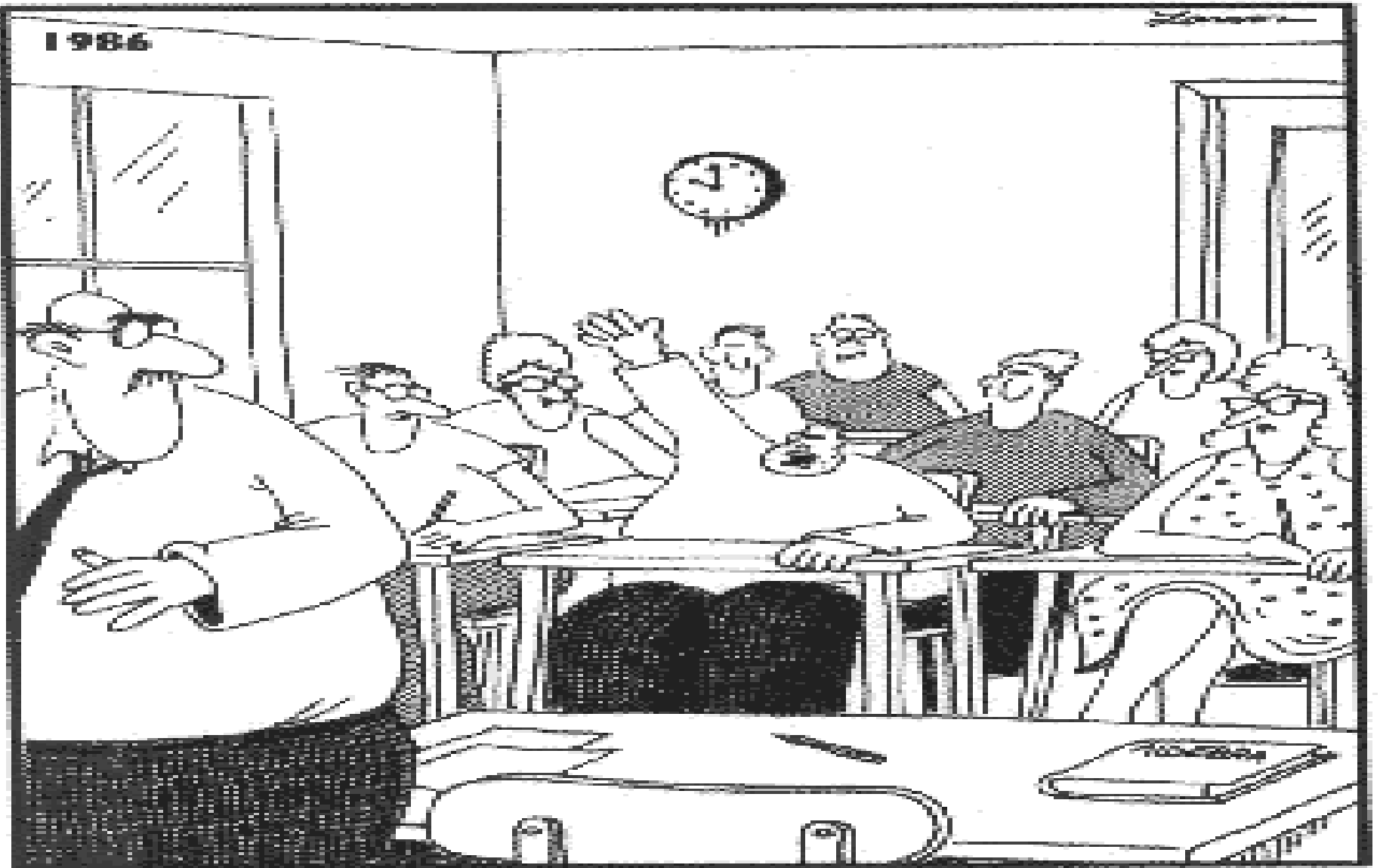
Review of 4 months of credit card bills along with documentation to support the charges

# AGREED UPON PROCEDURES

Frequently done in conjunction with compilation service.

Can be done in conjunction with Report Form C preparation.

1986



“Mr. Osborne, may I be excused? My brain is full.”



# QUESTIONS?

