

PREPARING FOR AUDIT

Maine Municipal Tax Collectors' and Treasurers' Association

May 15, 2015

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PREPARING FOR AUDIT

GOAL:

- *Thorough and efficient audit*
 - *Add value to organization*
 - *Keep costs down*
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- **GET RID OF YOUR AUDITORS AS QUICKLY AS POSSIBLE!**

THE ROLE OF MANAGEMENT

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

THE ROLE OF MANAGEMENT

- Have books reconciled and balanced
- Provide all required reports for audit at the beginning of field work
- Prepare confirmations (debt/cash/legal/insurance)

THE ROLE OF MANAGEMENT

- Staff with oversight of financial statements should collectively possess adequate knowledge of organization, functions, systems and mission and be able to take responsibility for financial statements including disclosures.

THE ROLE OF THE AUDITOR

“Our responsibility is to express opinions on these financial statements based on our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.”

THE ROLE OF THE AUDITOR

The role of the independent auditor is to examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

THE ROLE OF THE AUDITOR

It is **not** the responsibility of the independent auditor to **prepare** the financial statements or the footnote disclosures. It is also **not** the responsibility of the independent auditor to reconcile accounting information or to compile data for analysis or for financial statement or footnote disclosure. The independent auditor is available to assist with such matters, which are usually considered to be outside of the scope of an audit. However...

THE ROLE OF THE AUDITOR

- Cannot participate in the decision-making processes of the client.
- Audit standards dictate that if the auditor assists too significantly in the financial statement preparation process, independence will be deemed to be impaired.

PREPARING FOR THE AUDIT

Logistics:

- Scheduling
- Work area
- Staffing
- Availability of client personnel
- Review PBC list
- Communicate issues or difficulties to auditor
- Establish timelines, deadlines and expectations
- Engagement letter (contract)
- Pre-audit

PREPARING FOR THE AUDIT

Analyze accounts:

- Review general ledger
- Check beginning equity balances (prior AJEs posted)
- Analytical review of accounts – explain significant or unusual variances
- Perform reconciliations (reduce audit entries)
- Gather supporting documentation
- Identify inconsistencies between periods/new accounts or activity
- Record any budget transfers
- Ensure budget posted in balance
- Review prior year AJEs to see what can be done prior to audit

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Internal controls and compliance:

- Document changes in internal controls
- Identify changes in policies and procedures
- Review prior year deficiencies and findings and corrective action
- Identify any external reviews and findings (IRS, State agencies, WC, etc.)
- Prepare SEFA if applicable

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Keep and audit file during the year:

- Important correspondence
- Commitments and contingencies
- New debt and leases
- Capital asset activity
- Unusual or complex transactions
- Actions with potential financial impact
- Potential disclosure items
- New grant agreements/applications
- Changes to or new policies and procedures
- Significant contracts
- Information about legal issues
- Information on new funds or accounts

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Reports (electronic or print depending on your auditor):

- Trial balances – all funds
- Budget to actual
- Have detail available
- Journal entries
- Copy of approved budget and amendments

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SIGNIFICANT ASSET AREAS (all reconciled to TB):

- Cash and investments:

- Bank statements and reconciliations*

- Subsequent bank statements*

- Sweep/passbooks/CDs/Money market accounts*

- Investment statements*

- Confirmations*

- Collateral information*

- Receivables:

- Supporting schedule of accounts receivable (all funds) with backup available*

- Taxes and liens receivable listing*

- Loans and notes receivable*

- Inventory

- Prepaid expenditures

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Capital Asset Considerations:

- *Additions (threshold)*
- *Disposals*
- *Physical inventory by departments*
- *Depreciation expense*
- *Review useful lives*
- *Keep a file of additions and disposals*
- *Insurance recoveries*
- *New leases*
- *Donated assets*
- *Impairments*
- *Trade-ins*
- *Infrastructure*

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SIGNIFICANT LIABILITY AREAS (all reconciled to TB):

- Payables:
 - Accounts payable – all funds (review for unrecorded liabilities)*
 - Subsequent disbursements*
 - Backup for amounts due to State*
 - Backup for withholding and other payroll related liabilities*
- Accrued liabilities:
 - Accrued payroll*
 - Accrued compensated absences (sick, vacation, comp time)*
- Deferred/unearned revenue
- Other liabilities

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Long-Term Liability Considerations:

- *Bonds and notes payable*
- *Capital leases*
- *Operating leases*
- *Landfill liability*
- *Short-term debt (TANs/BANs/RANs, etc.)*
- *Refundings*
- *Authorized but unissued debt*
- *Other post employment benefits*
- *Premiums/Discounts*
- *Overlapping debt*
- *Conduit debt*
- *Claims and settlements*

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Equity Considerations:

- Nonspendable
- *Restricted*
- *Committed*
- *Assigned*
- *Deficits*
- *Subsequent year budget*
- *Policy considerations*

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Other:

- Assessor's certification and municipal valuation report
- *Minutes*
- *Abatements and supplementals*
- *941s and other payroll reports*
- *TIF agreements*
- *LD-1 calculation*
- *Invoices, receipts, warrants, bank statements, timesheets, personnel files, I-9s*
- *Union contracts*
- *MD&A*

Questions & Answers:

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