

Audit Preparation & Readiness

Wisconsin Government Finance Officers Association (WGFOA) Stevens Point

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Agenda



Candor. Insight. Results.

1. General Audit Planning
2. Best Practices
3. Other Items to Consider
4. Specific Areas to Focus on or Clarify
5. Group Activity
6. Wrap-up and Conclusions

General Audit Planning



General Audit Planning



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Types of audits

- > Financial audits
- > Compliance audits
 - . Federal and state single audits
 - . Program audits
 - . Tax incremental district audits

Engagement letters or contracts

- > Defines the scope of services to be performed
 - . What is being audited?
 - . What reports will be issued?
- > Defines responsibilities
 - . Auditor responsibilities
 - . Auditee responsibilities
- > Defines non-audit services to be performed
 - . Financial statement preparation
 - . Journal entries
 - . Regulatory reporting (State report, PSC report, PFC report)
 - . Compiled reports (TIF reports)
 - . Management's responsibility to oversee and accept responsibility for non-audit services

Engagement letters or contracts (cont.)

> Timing and fees

- . What will be billed
- . When will it be billed
- . Amendments for out of scope services

> Other matters

- . Dissemination of the auditor's report
- . Access to workpapers
- . Confidentiality
- . Documentation retention
- . Indemnification
 - » Indemnification for client acts is a problem
 - » AICPA Ethics Ruling 191.102 . independence is impaired

Phases of an audit

> Preliminary fieldwork

- . Planning
- . Entrance or kick off meetings
- . Establish responsibilities on both sides
- . Establish the audit plan
- . Establish expectations for both sides
- . Establish timelines
- . Communicate documentation and workpapers needed for preliminary and final work
- . Internal control documentation and testing
- . Some substantive work on year-end balances or activity can be performed
- . This is where we as auditors find out from you what is new or different from last year?+

Phases of an audit (cont.)

> Final fieldwork

- Communicate early if you won't be ready to begin the audit
- It all starts with a final trial balance
- Have all requested workpapers and documents available
- Account reconciliations for year end balances
- Examination of supporting documentation
- Inquiries of management
- Be available to answer questions
- Conclude testing
- Obtain or prepare financial statements

Phases of an audit (cont.)

> Wrap-up

- . Financial statement analytics
- . Subsequent events
- . Legal letters
- . Management representations
- . Preparation of the MD&A
- . Review of draft reports
 - » By management
 - » By the auditor
- . Quality control process
- . Exit conference

Best Practices



Continuous communication throughout all phases of the audit

> Preliminary:

- . Names of staff on preliminary and final phases of audit
- . Establish a detailed timeline working from the final issuance backwards
- . Assign responsibilities/send appointments/communicate these critical dates to everyone that needs to know (hold people accountable)
- . Impacts of changes to auditing standards
- . Impacts of GASB^s both current and proposed
- . GFOA comments
- . Component unit reports that are audited by other firms
- . Prior year management letter comments and their status
- . Suggestions from the prior year
- . Significant financial items the government or the auditors need to be aware of
- . New funds and how they will be reported

Continuous communication (cont.)

> Final:

- . Status of audit-what's left
- . Open items prioritized and assigned responsibility
- . How the other audit segments went
- . Financial results
- . Journal entries provided-passed and actual
- . Re-emphasize timing of deliverables and whether the audit is on track
- . Meeting dates with governing bodies
- . Subsequent events, commitments/contingencies
- . Internal control issues (status of prior year and new points)
- . How the audit can be improved upon/what can be done differently

Auditors should accumulate questions and establish meeting time vs. continual interruptions

Develop thorough and clear audit get-ready letters

- > Completeness
- > Are all items necessary or are they on there just because they were asked for last year?
- > Use terminology that both sides understand
- > Numerically categorize audit get-ready letters
- > Numerically name prepared documents consistent with the letter (prevents auditors from asking for items already provided)
- > The auditor should provide prior year lead sheets and perhaps supporting work papers (clarifies and provides a great starting point, especially for capital assets)
- > Communicate potential capital asset items noted during review of minutes

Develop thorough and clear audit get-ready letters (cont.)

- > Review suggestions from last year
- > Government should establish a lead-person to coordinate audit items
- > Assign duties and due dates - DELEGATE!
- > Prepare separate get ready letters for prelim and final
- > Prepare letter for the Single Audit, by grant program
- > Invest the time this deserves
- > Provide files electronically and establish internet connection for the auditors

Best Practices



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- > Work collaboratively with your auditors to proactively identify and discuss complex accounting and financial reporting areas early in the process. Avoid surprises!
- > Review prior year adjusting journal entries
- > Government should work with your auditors to accomplish as much during prelim as possible
- > Send cash and investment confirmations early and follow-up on those not returned
- > Tie out state payments to assure completeness and accuracy in coding to general ledger
- > Pay off interfunds prior to year-end as much as possible
- > Establish interfunds for negative cash balances

Best Practices



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- > Government should perform internal analytical review
- > Adjust equity amounts
- > Clear your calendar-avoids additional stress and open items. Send appointments.
- > Reserve space for the auditors well in advance
- > Auditors can request subsequent year invoices and receipt support to test AP and AR at pre-determined thresholds. Saves staff time during the audit
- > Avoid having your auditors pull invoices and other support. Saves audit time/cost and perhaps misfiled documents
- > Both the government and the auditors should maintain a working file for suggestions to next year. Continuous improvement!

Best Practices



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- > **If your auditors prepare your statements:**
 - . Review them closely
 - . Take ownership
 - . Ask questions
 - . Compare them to the prior year

- > **If your government prepares your financials:**
 - . Roll over your financials, MD&A, and stat section during the year. One less thing to do in the spring
 - . Maintain and open file for items needed in the financials
 - . Prepare reversing entries from the prior year during the current year
 - . Update the notes as necessary
 - . Incorporate GFOA comments during the year
 - . Utilize a checklist (GFOA or internal)

- > Review the management letter to address comments
 - . Improves operations
 - . Evaluate costs vs. benefits
 - . Think outside the box
 - . ~~do not~~ view the audit report as just a review of the prior year, it is the starting point for our next year+
- > Benefits of being well-prepared:
 - . Fewer interruptions
 - . Fewer adjusting journal entries
 - . Perhaps lower fees (audit or additional bookkeeping)
 - . Fewer findings
 - . More efficiencies
 - . Allows auditors to focus on bigger issues, which is why you hired them

Other Items to Consider



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Other Items to Consider



Group audit implications

- > What is a group audit?
 - Primary government and component units audited by different audit firms
 - For purposes of group audits, component units include funds such as a utility which is audited by another audit firm
- > Audit standards require
 - Enhanced communication between primary auditor and component unit auditor
 - Enhanced communication between the primary auditor and those charged with governance
- > Reporting
 - Coordination of receiving the component unit financial statements and audit report
 - Primary auditor will in most cases make reference to and place reliance on the work of the component auditor

Service organizations

- > Most common types are:
 - . Payroll
 - . Health and dental claims administration
 - . Other insurance administration
 - . Ambulance and rescue billing
 - . Tax bill printing and collection
 - . Property assessment
 - . Loans receivable processing
 - . Capital assets
 - . Investments

Service organizations (cont.)

- > Service Organization Controls Report
 - SOC 1 Report (formerly SAS 70 Report)
 - Type 2 report
 - Bridge letters
- > Not required in all circumstances
- > What happens if this report is not available?
 - The auditor is required to gain an understanding of the controls and processes used by the service organization
 - Potential need for the auditor to visit the service organization and perform detailed testing

Other Items to Consider



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Suggestions for reducing the cost of your audit

- > Eliminate non-audit services (this is the big one)
- > Eliminate non-essential reports
- > Workpaper preparation

Other Items to Consider



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Barriers to an efficient audit

- > Lack of communication
- > Lack of readiness
- > Availability of necessary personnel
- > Lack of IT resources
- > Lack of adequate work space

Specific Areas to Focus on or Clarify



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Specific Areas to Focus on or Clarify



Specific Areas to Focus on or Clarify



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Debt . what is needed?

- > Closing memorandum or sources and uses statement
- > Repayment schedule
- > Form 8038G
- > If a refunding: Debt comparison schedule calculating the NPV

Collateral statements

- > Consistent with your year-end
- > Documenting pledging bank and holding bank
- > Market values of securities
- > If not collateralized, but secured in another manner, supporting documentation

Specific Areas to Focus on or Clarify



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Capital assets

- > Create a policy, GFOA examples
- > Use a capital asset system if you have one
- > Update lead sheet. Begin with prior years
- > Pull invoices supporting current year additions
- > Ask your auditor questions regarding gray areas
- > Update periodically throughout the year
- > Send correspondence to departments regarding deletions
- > Review the minutes for potential items (contributed, etc.)
- > Analyze prior year CIP. Know what is in ending CIP balance
- > Don't over-appreciate
- > Perform periodic (five-year) overall physical inventory. Delegate to department heads

Specific Areas to Focus on or Clarify



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State report allocations

- > Debt proceeds by purpose (police, storm, water, etc.)
- > Capital outlay by function
- > Build America Bond rebates to federal inter-governmental revenues by function
- > Engineering to streets, sidewalks, etc.
- > Insurance, property sales, building maintenance, etc.
- > Goal is to capture as much state aid as possible
- > Remember, this is not an audited document

Specific Areas to Focus on or Clarify



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Single audit

> Preliminary or planning phase:

- . Summary schedule of prior audit findings (A-133 items only)
- . Prepare schedule of awards . **START EARLY!**
- . Auditors will then use these two items to determine programs to test

> Program testing or final phase

- . Auditors should utilize a get-ready letter segregated by federal/state grants and State of WI general requirements. Will likely request:
 - » Copies of grant agreements and amendments
 - » Financial or performance reports submitted to granting agencies
 - » Major program questionnaire designed to address the applicable 14 compliance requirements
 - » Reimbursement requests
 - » General ledger listing of program expenditures

Group Activity



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Group Activity



Wrap-up and Conclusions



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Wrap-up and Conclusions



Wrap-up and Conclusions



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- > Differing approaches by different firms. Find what works for you
- > How to measure a successful audit:
 - Number of journal entries
 - Timing of deliverables
 - Management letter comments
 - Staff and decentralized department feedback
 - Overall impression
- > Communicate with your auditors throughout the year



QUESTIONS?

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