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Municipal Clerks and Treasurers Institute  
Audits 101  
September 14, 2023



Anne Harty, Chief Financial Officer/Municipal Clerk

- Experience
- 32 years in government finance
- With the City of Rock Hill since 2005
- Previously York County Treasurer/Finance Director 1991-2005
- Bachelors in Business Administration, Winthrop University, 1987
- Certificate Advanced Government Finance Institute, University of Wisconsin School of Business 2009
- Certified Public Accountant since 1990 & Certified Government Finance Officer since 1994
- Leadership
- Past President and Vice-President of the Catawba Chapter of the SC Association of CPAs
- Past State Board Member Chapter Representative of the SC Association of CPAs
- Past Co-Chair of the GFOA National Women’s Network Board
- Past GFOA National Nominating Committee and Committee on Auditing, Accounting, and Financial Reporting
- Past President of the Government Finance Officers Association of SC (2020 & 2021)
- Current Executive Board Member of the National Government Finance Officers Association
- Recognitions/Awards
- Received 2012 SC Association of CPA Woman to Watch Award
- Received 2015 American Institute of CPAs Outstanding CPA Local Impact Award
- Received 2017 Charlotte Business Journal CFO of the Year/Gov’t Non-Profit
- Received 2021 Winthrop University School of Business Administration Distinguished Graduate

2



This session will cover steps that municipal clerks and treasurers can take to ensure a smooth and efficient audit process. Learn the basic steps in the auditing process and how to prepare for the auditors



## What is an Audit?

- An audit is an official inspection of the government's accounts, typically by an independent CPA firm
- The purpose of the audit is to give assurance to the reader that they can rely on the financial statements for the purpose of making financial decisions
- An independent auditor is a person, usually a Certified Public Accountant, who has no relation in both fact and appearance to the government he or she is auditing
- An audit is not a fool-proof guarantee that the financial statements are correct or that illegal acts are not occurring
- An audit is not an assessment of the economic well-being of the organization



## State Law

Each local government must have an independent audit annually and must designate an independent auditor at least every four years.

*Section 5-7-240*

*\*\*NEW legislation as of June 2023. Only a compilation is required for municipalities with less than \$500,000 in total revenues.*

Failure to submit a copy of the local financial report to the Budget and Control Board could result in the State withholding State Aid.

*Section 6-1-50*



## Internal vs. External Auditors

- An Internal Auditor is an employee of the government that is responsible for making sure internal control procedures are in place/ being used and to report findings to top management
- An External Auditor is usually a CPA firm and is independent of the government. External auditors report to the governing body of the organization



## Responsibilities of Management and the Auditors

- Management is responsible for preparing the financial statements
- The Independent Auditors are responsible for accumulating evidence that the financial statements are fairly presented and for stating an opinion on their findings



## Maintaining Independence

- Independent Auditors cannot:
  - Alter journal entries
  - Code transactions
  - Authorize or approve transactions
  - Prepare source documents
  - Make changes to client source documents
- A second accounting firm can be hired if considerable assistance is needed



## Three Key Concepts of an Audit

1. Fair presentation – the independent auditor is responsible for rendering an opinion of whether or not the financial statements are fairly presented
2. Reasonable assurance – auditors do not test every single transaction, but choose a reasonable sample to examine
3. Materiality – the auditor is only looking for misstatements that are significant enough to matter



## The purpose of an Audit

- An audit adds credibility to the financial statements prepared by management
  - For compliance with laws and regulations
  - For having good internal controls
  - For being efficient and effective



## What is a “Single Audit”?

- A Single Audit is required when governments expend more than \$750,000 in Federal awards
- The Single Audit Act requires the government to apply additional audit procedures to these funds



## The Engagement Letter

- The engagement letter is one of the first contacts you will have with the independent auditor
- The engagement letter is like the contract. It gives specific information on the nature and the scope of work. It is an understanding of the responsibilities of the auditor and the governmental entity
- The auditor will ask that someone from management sign the engagement letter
- This is normally a standard letter with standard wording



## Covered in the Engagement Letter

- The type of audit/purpose
- The funds included in the audit
- The period covered
- The beginning and ending dates
- The level of assistance expected
- The compensation
- The due date for the final report
- The personnel and facilities to be available



## The Representation Letter

- The representation letter is a letter that the Auditor will ask you or the Manager/Administrator to sign
- The representation letter basically states that management has been truthful and has not intentionally hidden anything from the Auditors
- This is a standard Audit requirement and comes at the end of the audit process



## The Management Letter

- The management letter is a letter produced at the completion of the audit
- In the management letter, the auditor provides recommendations for improvements and highlights any areas where internal controls are weak or could be improved upon
- The shorter the Management Letter, the better



## The GAAS Audit Standards

(Generally Accepted Auditing Standards)

- The General Standards:
  - The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor
  - In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors
  - Due professional care is to be exercised in the planning and performance of the audit and the preparation of the report



- Standards of Field Work
  - The work is to be adequately planned, and assistants, if any, are to be properly supervised
  - A sufficient understanding of internal control is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed
  - Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit



- Standards of Reporting
  - The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP)
  - The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period
  - Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report
  - The report shall either contain an expression of an opinion regarding the financial statements taken as a whole, or an assertion to the effect that an opinion cannot be expressed



## An ACFR

- An “ACFR” is short for Annual Comprehensive Financial Report and is a nationally recognized format established by the Government Finance Officers Association (GFOA)
- An ACFR includes extra supplementary information that is not required, but is helpful
- Examples of this information include population and property tax trends over the last ten years



## Be Accommodating

- Relax!
- Ask for a checklist ahead of time
- Be ready when they arrive for fieldwork
- Set a specific time of day or week for answering questions/follow-up so that you aren't constantly interrupted
- Make them feel at home. Find a good workspace for them and show them where the copier, restrooms, break rooms, etc. are located



## Be Ready

- Auditors determine the amount of testing required based on Risk
- If discrepancies are discovered, their risk of material misstatement in the financial statements increases
- The higher the risk, the more testing they complete



## Where Do I Start?





## Items to Prepare

- A trial balance with account numbers, descriptions, and amounts
- Original and Amended budget amounts
- Detailed general ledger
- Any unpaid construction commitments at year-end
- The beginning and ending check numbers for the year
- Once they have determined their sample, pull those documents



## Minutes of City Council Meetings

- Provide a link to the minutes or have a copy of the signed minutes available for the auditor
- Read through all of the City Council meeting minutes and identify large financial transactions and items that may rise to the level of disclosure
- Make sure those transactions are included in your financial statements



## Supporting Schedules

- It is best to have a supporting schedule for everything on the balance sheet (all assets and all liabilities)
- Prepare these ahead of the auditor's field work



## Bank Accounts-Cash

- The Auditors are going to ask for a list of all of your bank accounts, the accounts numbers, and the reconciled balances
- Make a copy of every June (or last month of the FY) bank statement along with the bank reconciliations
- Some auditors want to open your June and/or July bank statements, so ask them before they are opened
- Prepare bank confirmations



## Year End Inventory

- Take a year end inventory of all warehouse items
- Invite the auditor to observe



## Fixed Assets

- Prepare a list of the vehicles and heavy equipment owned by the government on the last day of the fiscal year
- Prepare a list of land and buildings owned by the government on the last day of the fiscal year
- Prepare a list of any Construction in Progress on the last day of the fiscal year



## Receivables and Payables

- Have detailed reports on year end receivables available for the auditor's inspection
- Have all payables identified. Have all invoices pulled for your accounts payable for the auditors to inspect
- I recommend recording year-end receivables and payables in a separate batch or check run



## Receivables

- Make a copy of checks received after year end that are recorded as a year-end receivable
- For example, the local government fund check, grant reimbursements, etc.
- Prepare an allowance of doubtful accounts and an explanation of your logic (ex. Based on the age of the receivable, returned mail, etc.)



## Payables

- Prepare separate check batch runs for the prior FY and the current FY
- This keeps the payable file clean and cuts down on the amount of documents the auditors pull for inspection
- They are going to check everything on these transactions, so you may want to hold off on filing these invoices
- Make sure they are all properly approved



## Payroll

- Have a copy of payroll documents ready for the auditors (941s and the W2s)
- Run a report of all your payroll general ledger accounts and reconcile the totals of these GL accounts to the 941 total gross wages.
  - Total gross payroll on 941s
  - Minus prior year accrual
  - Plus current year accrual
  - Plus or Minus anything coded to Salaries that isn't on W2s (like temporary help or grant off sets)
  - Equals the total gross payroll on the GL



## Debt

- If you borrowed any funds during the year, or within the months after the end of a fiscal year, the closing documents available for the Auditors to review
- Have a copy of all debt service repayment schedules available for the auditors



## Policies and Procedures

- Make a copy of all policies and procedures for the Auditors



## Internal Controls

- Auditors love good Internal Controls
- The better controls you have, the less the risk of material misstatements. Thus – the less testing they feel needs to be done



## Internal Controls

- Ask for a copy of their Internal Control list questionnaire ahead of time
- It will ask questions about separation of duties, checks and balances, etc.
- Sometimes separation of duties is not possible – be ready to explain some form of mitigating factor
- The Auditor is looking for separation between authorization, recording, and maintaining custody



## Example Internal Control Questions

- Are bank statements reconciled in a timely manner?
- Does the same person that reconciles the account approve the invoices, record the transactions, make the deposits, or sign the checks?
- Are any checks written to cash?
- Are approval procedures in place for employee reimbursements?



## Example Internal Control Questions

- Does someone review the bank reconciliations?
- Who opens the bank statements?
- Who is authorized to sign checks, approve invoices?
- Is a signature stamp ever used?
- Do any Council members or employees have conflicts of interest?
- Do you have a policy against employees performing transactions on their personal accounts or the accounts of relatives?



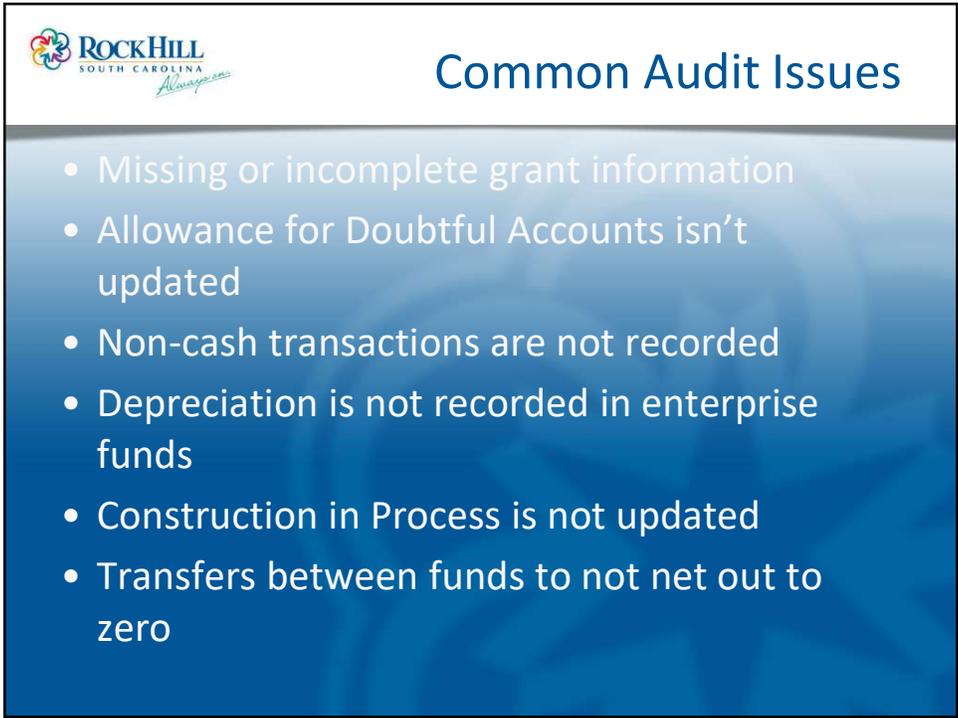
## Example Internal Control Questions

- Are employees bonded?
- Have you had any known fraud or embezzlement in the past five years?
- Are employees in Finance required to take an annual vacation?
- Do other employees perform accounting functions in their absence?
- Is computer access secure?



## Two Important Things

- Be organized! The more organized you are, the more comfortable they are, and the smoother the audit process
- Keep a copy of everything you give to them





Questions?  
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