

Understanding Your Audit(s)

AGENDA

(1) Why audits are required

(2) Audits and related services

(3) The scope of an audit

(4) The different types of audit reports and letters

(5) An overview of the reports

AUDIT REQUIREMENTS - TEXAS

- **Loc. Gov't Code Sec. 103.001 Annual Audit; Financial Statement.**

(a) A municipality shall have its records and accounts **audited annually** and shall have an annual financial statement prepared based on the audit.

- **Loc. Gov't Code Sec. 103.002. Auditor.**

...shall employ at its own expense a **certified public accountant** who is **licensed** in this state or a public accountant who holds a permit to practice from the Texas State Board of Public Accountancy to conduct the audit and to prepare the annual financial statement.

- **Loc. Gov't Code Sec. 103.003. Filing; Public Record.**

(a) The annual financial statement shall be filed in the office of the municipal secretary/clerk **within 180 days** of fiscal year end.

(b) The financial statement is a public record.

AUDIT REQUIREMENTS – FEDERAL GRANTS

- **Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)**
- **2 CFR 200.501 Audit Requirements**
 - **A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.**
- **Single audit has additional requirements related to Government Auditing Standards.**

AUDIT REQUIREMENTS – STATE GRANTS

- **Chapter 783 of the Texas Government Code**
 - **Uniform Grant and Contract Management Act**
- **The Comptroller of Public Accounts Statewide Procurement Division (SPD) publishes the Texas Grant Management Standards (TxGMS).**
- **Required when State grant expenditures exceed \$750,000 during the fiscal year.**

AUDIT REQUIREMENTS – CREDITORS

- **Official statements**
- **Continuing Disclosure**
 - **Securities and Exchange Commission (SEC) Rule 15c2-12**
 - **Continuing disclosure agreement**
 - **Copies of the annual audited financial report are submitted to the Municipal Securities Rulemaking Board (MSRB). Typically, due 180 days after FYE.**
- **emma.msrb.org**

AUDITS AND RELATED SERVICES

- **Audits**
- **Reviews**
 - **Limited assurance** on whether the auditor is aware of **material modifications** that should be made to the **financial statements**
- **Compilations**
 - **No assurances** or opinion provided
- **Agreed-Upon Procedures**
 - **Reports the findings** **without providing an opinion or a conclusion**

SCOPE OF AN AUDIT

- **The auditor's responsibility is to express opinions (reasonable assurance) about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.**
- **An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.**
- **An audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.**

TYPES OF AUDIT OPINIONS

- **Unmodified**
- **Modified**
 - **“Except for”**
 - **Limited material misstatement**
- **Adverse**
 - **Negative opinion**
- **Disclaimer**
 - **No opinion issued**

MATERIALITY

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

MISCONCEPTIONS

- **Objective of an audit is to catch fraud**
- **All transactions are reviewed**
- **An opinion is provided on the effectiveness of internal controls**
- **An unmodified audit opinion = a clean bill of health**
- **Auditors can create policies on behalf of the entity**
- **Auditors can make management decision**
- **Auditors are the third-party bookkeepers**

TYPES OF REPORTS AND LETTERS

- **Annual Financial Report (AFR)**
- **Annual Comprehensive Financial Report (ACFR)**
- **Independent Auditors' Report**
- **Required Auditor Disclosure Letter**
 - **Planning**
 - **Conclusion**
- **Management Letter (if required)**
- **Single Audit Report (if required)**

ANNUAL FINANCIAL REPORT

- **Independent Auditors' Report**
- **Management Discussion and Analysis**
- **Basic Financial Statement**
 - **Government-Wide Financial Statements**
 - **Fund Financial Statements**
 - **Notes to the Financial Statements**
- **Required Supplementary Information**
- **Supplementary Information**

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

- **Government Finance Officers Association (GFOA)**
- **GFOA established the Certificate of Achievement for Excellence in Financial Reporting Program (COA) in 1945 to encourage and assist state and local governments to go **beyond the minimum requirements** of generally accepted accounting principles to prepare annual comprehensive financial reports that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal.**

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

- **Introduction Section (Required for ACFR Only)**
 - **Transmittal Letter**
 - **GFOA Certificate of Achievement**
 - **Organization Chart**
 - **List of Elected and Appointed Officials**
- **Financial Section**
- **Statistical Section (Required for ACFR Only)**
 - **Financial Trends – financial performance over time**
 - **Revenue Capacity – assess most significant local revenue source**
 - **Debt Capacity – current level of outstanding debt and ability to issue additional debt in the future**
 - **Demographic and Economic Information – population, income, unemployment rate, principal employers**
 - **Operating Information – staffing, operating indicators, capital assets**

SINGLE AUDIT REPORT

- ***Government Auditing Standards Letter***
- **Uniform Guidance Letter**
- **Summary Schedule of Prior Audit Findings**
- **Schedule of Findings and Questioned Costs**
- **Schedule of Expenditures of Federal Awards (SEFA)**
- **Schedule of Expenditures of State Awards**
- **Notes**