



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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PREPARING FOR AN ANNUAL AUDIT



Presenter

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Kathleen is an assurance partner in the Escanaba office. She has 11 years of public accounting experience serving governmental entities. She is a member of the firm's Quality Control committee and a single audit specialist. Kathleen is a member of the American Institute of Certified Public Accountants, the Michigan Association of Certified Public Accountants, and the Wisconsin Institute of Certified Public Accountants.



Agenda

- What is an audit?
- What is the role of board?
- What is the role of management?
- Steps to a successful audit
- Audit request (PBC) list
- Conclusion



What is an audit?

- An independent audit is an examination of the financial records, accounts, business transactions, accounting practices, and internal controls of an organization by an "independent" auditor.
 - Provide reasonable assurance that the financial statements are free from misrepresentations
- An independent audit is NOT intended to detect fraud
 - Most fraud is detected as a result of a tip
- The “product” or result of an audit is the Independent Auditor’s Report
 - Management’s Responsibilities
 - Auditor’s Responsibilities



What is an audit?

- Audits of Local Units of Government (Michigan Treasury)
 - “The primary purpose of the auditing and reporting requirements of PA 2 of 1968 is to maintain the confidence of all interested parties in the integrity of the record keeping and financial reporting of local units of government. Interested parties include, but are not limited to, the following: citizens of the community, state and federal government, creditors, and local officials.”
 - Statutory compliance procedures are required when auditing local governments in Michigan



What is an audit?

- Audits of Local Units of Government (continued)
 - “The audit will help to assure compliance with the law, that systems are in effect to adequately safeguard assets, compliance with the provisions of the state uniform chart of accounts, and that financial statements are fairly stated in accordance with generally accepted accounting principles. The independent CPA should provide the local units with constructive recommendations to improve efficiency, safeguard assets, make budgets more useful as "tools to management," and insure that financial reports are fairly presented.”
- Uniform Reporting Format (Michigan Treasury)
 - “The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that local unit accounts are maintained and kept in accordance with these standards.”



What is an audit?

- Uniform Reporting Format (continued)
 - Generally Accepted Accounting Principles (GAAP)
 - Governmental Accounting Standards Board (GASB)
- Accounting Procedures Manual for Local Units of Government (Michigan Treasury)
 - Assists local government officials in applying accounting procedures in their local unit of government.
- Uniform Chart of Accounts (Michigan Treasury)
 - “The Uniform Chart of Accounts provides a systematic arrangement and means for the uniform accumulation, recording, and reporting of financial information and transactions for all local units of government in Michigan.”



What is an audit?

- Uniform Budget Manual (Michigan Treasury)
 - “Governmental units account for public resources on a "fund basis" of accounting to enhance taxpayers' and elected officials' ability to monitor and control expenditures of public monies in accordance with their wishes. Hence, no expenditure of public monies can be made without an appropriations act passed by the legislative body of a local unit, which is an expression of the wishes and priorities of elected officials to provide public services within the resources made available. The appropriations act is the final product of the budget cycle and is the key to controlling the finances of a local unit.”



What is an audit?

- Understand the difference between attest and non-attest services
 - Attest = Audit Opinion
 - Non-Attest
 - Financial Statement preparation
 - Fixed Asset Schedule maintenance
 - Calculation assistance



What is an audit?

- Phases of an audit
 - Preliminary fieldwork and planning
 - Discuss significant events and implementation of new accounting standards
 - Internal control assessment and testing
 - Fieldwork
 - Wrap up
 - Exit conference
 - Corrective Action Plan
 - Financial statement presentation to the Board
- Communication with auditor should be year round!



What is the role of the Board?

- Ensuring the integrity of accounting and financial reporting systems
- Appoints the external auditor
- Fiduciary responsibility for oversight or monitoring
 - Of financial reporting
 - Of internal controls
 - Of risk assessment
 - Of compliance with laws and regulations
- Rely on management to run the daily operations
 - Board should be familiar with the risks, processes, and controls



What is the role of Management?

- Executing Board's plan
- Daily operations
- Responsible for
 - Preparing the financial statements
 - Establishing and maintaining adequate internal control
 - Evaluating the effectiveness of internal control
- Preparing for the audit and cooperating with the auditors
 - Logistics and timing
 - Make sure accounting records are up-to-date, accurate, and organized



Steps to a Successful Audit

- Plan ahead
 - Treat audit preparation as a year long process
 - Keep schedules and reconciliations up to date
 - Discuss new or unusual transactions with your auditor throughout the year
 - Auditor can assist with recording
 - Prevents findings during the audit



Steps to a Successful Audit

- Stay informed of new accounting standards
 - Properly implementing new standards is your responsibility
 - Of course, your auditor is always there to help
 - Some standards will require more lead time than others
 - Assess whether accounting personnel require additional training
 - Reach out to your software company, if necessary



Steps to a Successful Audit

- Assess changes in activities
 - Consider new programs, grants, reporting requirements
 - Consider activities that were discontinued and evaluate for impairment issues
 - Consider changes in your procedures or internal control systems



Steps to a Successful Audit

- Learn from the past
 - Review auditor proposed journal entries from prior year
 - Review comments and recommendations from prior year audit or other evaluations
 - Reflect on struggles from the prior year audit



Steps to a Successful Audit

- Develop timeline and assign responsibility
 - Work with other departments
 - Consider a pre-audit meeting with key finance personnel to divide up the audit request list
 - Set due dates based on audit timeline
 - Be sure to factor in your regular assignments



Steps to a Successful Audit

- Organize Data
 - Find what works for you
 - Set up paper and electronic folders
 - Be sure supporting documentation such as invoices or receipts are well organized
 - Auditors may request you pull files or may go through files themselves
 - Don't move current fiscal year files to storage



Steps to a Successful Audit

- Ask questions
 - Don't be afraid to ask auditor for clarification on a request
 - Ask auditor about any concerns you have
 - Ask department heads for any information or explanation that you may need
 - Consider estimates, litigation, related parties, commitments, and contingencies
 - As a key audit contact, the auditor will likely ask you questions on a wide-array of topics
 - Reduce stress by trying to have answers to questions you know the auditor will ask



Steps to a Successful Audit

- Perform a self-review
 - Ensure all schedules tie to the general ledger
 - Review current year balances for reasonableness compared to prior year, budget, and known circumstances in the current year



Steps to a Successful Audit

- Be available during fieldwork
 - Avoid key personnel scheduling time off during the audit
 - Consider rescheduling or postponing non-critical meetings
 - Track progress of open items and additional requests from auditor during fieldwork



Steps to a Successful Audit

- Evaluate results
 - Maintain communication with auditor during the time between fieldwork and the issuance of the audit report
 - If the auditor is assisting with financial statement preparation, they may have follow up questions/requests
 - Communicate with auditor regarding deadlines and board meeting dates
 - Reflect on audit and consider any changes that need to be implemented



Audit Request (PBC) List

- Cash and Investments
 - Bank and investment reconciliations including support for all accounts for fiscal year end
 - Should tie to trial balance
 - Bank and investment statements for month of and month after fiscal year end
 - Schedule of gains/losses on investments
 - Bank confirmations



Audit Request (PBC) List

- Accounts Receivable
 - Detail list of all money owed to local government (aged AR report)
 - Should tie to trial balance
 - Ensure cutoff has been properly recorded (full accrual vs. modified accrual)
 - Review for long-outstanding items
 - Ensure all types of revenue have been considered
 - Taxes, grants, utilities, misc., etc.
 - Support for all items recorded as AR
 - Details of the allowance for doubtful accounts (or explanation as to why none)
 - Any policies related to collections or write-offs



Audit Request (PBC) List

- Prepaid Expense, Inventory, and Other Assets
 - Prepare supporting schedule for each
 - Consider prepaid rent, insurance, service or maintenance agreements
 - Policies and procedures related to inventory (count accuracy, valuation, etc)
 - Support for physical inventory count



Audit Request (PBC) List

- Fixed Assets
 - Schedule showing current year additions and disposals
 - Acquisition date, purchase price, useful life
 - Pay attention to construction in progress
 - Gains/losses on disposals
 - Capitalization and depreciation policy
 - Detail of repairs and maintenance
 - Consideration of any donated assets



Audit Request (PBC) List

- Accounts Payable
 - Detail list of all money the local government owes vendors (aged AP report)
 - Should tie to trial balance
 - Ensure cutoff has been properly recorded
 - Review for long-outstanding items
 - Pay attention to open ended projects at year end
 - All invoices not paid as of year end
 - Check register and supporting invoices for months subsequent to year end



Audit Request (PBC) List

- Accrued Liabilities
 - Schedule of accrued wages as of fiscal year end
 - Last pay period of the fiscal year that was paid after year end
 - Schedule of accrued sick and vacation as of fiscal year end
 - Actuarial valuations – Pension and OPEB
 - Communicate early with your auditor if you will need assistance with these calculations
 - Census data for participants
 - Wage schedules, union contracts, personnel files



Audit Request (PBC) List

- Debt
 - Copies of any new loan, note payable, line of credit agreements
 - Schedule of proceeds and payments by debt issuance
 - Principal and interest payments should agree to amortization schedule



Audit Request (PBC) List

- Net Position/Fund Balance
 - Ensure net position/fund balance per trial balance agrees to prior year audited financial statements
 - Remember you should not be posting journal entries to fund balance accounts
 - Identify restrictions, commitments, assignments
 - Detail of use/release of any funds previously “reserved”



Audit Request (PBC) List

- Revenue/Receipts
 - Explanation for significant variances from prior year or budget
 - Receipt register for period under audit and period subsequent to audit
 - Support for property tax revenue
 - Support for utility receipts, rates
 - Detail of grants received and any unearned revenue



Audit Request (PBC) List

- Expense/Disbursement
 - Explanation for significant variances from prior year or budget
 - Check register for period under audit and period subsequent to audit
 - Be sure to include electronic payments
 - Credit card statements, supporting receipts, and policy
 - Payroll registers/journals



Audit Request (PBC) List

- Overall
 - General ledger
 - Trial balance
 - Schedule of federal expenditures
 - Grant awards and correspondence
 - Contracts, lease agreements
 - Accounting and financial management policies
 - Board minutes
 - All interfunds should net out



Conclusion

- Communicate and document
- Year long process
- Audit is not intended to be a personal report card
- Thinking ahead
 - Movement toward data analytics and full electronic access



Resources

- AICPA
 - <https://www.aicpa.org/>
- Audits of Local Units of Government
 - [https://www.michigan.gov/documents/treasury/Audit Manual for LUG in Michigan 383593 7.pdf](https://www.michigan.gov/documents/treasury/Audit_Manual_for_LUG_in_Michigan_383593_7.pdf)
- Uniform Reporting Format
 - https://www.michigan.gov/documents/uniformreportingformatmanual_20446_7.pdf
- Accounting Procedures Manual
 - https://www.michigan.gov/documents/treasury/AccountingProceduresManual_202967_7.pdf
- Budget Manual
 - https://www.michigan.gov/documents/treasury/UniformBudgetManual_646292_7.pdf
- Chart of Accounts
 - https://www.michigan.gov/documents/uniformchart_24524_7.pdf



Questions?

Thank you!

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