

Managing the Audit and Preparing the Annual Town Audit Report

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Managing the Audit

- Preliminary review
- Document procedures
- Review internal control
- Perform test procedures
- Prepare reports

Preliminary Review

- Review financial reports included in prior year town report
- Review current year reports prepared by town officers
- Have there been any significant changes in operations since the last audit?
- Are there external factors that may have impacted the town's financial results?

Document Procedures

- Which elected officials and/or employees perform which financial operations?
 - Billing and collection of taxes and other revenue
 - Authorizing purchases and payment of accounts payable
 - Preparation of payroll and payment of related liabilities
 - Review of activities and preparation of reconciliations
 - Preparation of financial reports

Review Internal Control

- Analyze procedures to assess possible risks
- Inquire about existing compensating controls
- Complete internal control checklist
- Determine how results of review may impact audit procedures
- Prepare recommendations for improvements

Perform Test Procedures

- Use checklists
- General procedures
 - Review of select board minutes
 - Analytical review of financial statements
- Account specific procedures
 - Balance sheet accounts
 - Income statements accounts

Prepare Reports

- Written report on fair presentation of town officials' financial reports
- Financial reports to be included in annual report
- Findings and recommendations

Learning the Operations

- Property tax billing and collection
- General cash receipts and receivables
- Purchasing and accounts payable
- Payroll and leave time processing
- Maintenance of general ledger
- Reconciliations
- Financial reporting

Property Tax Billing and Collection

- Grand list valuation
- Setting of tax rate(s)
- Preparation of tax bills
- Adjustments to grand list and changes to tax bills
- Reconciliation of current and delinquent taxes

General Cash Receipts and Receivables

- Who is authorized to collect money?
- What documentation is maintained for receipts?
- Who verifies/reconciles the information?
- How are the transactions recorded in the accounting records?
- Who follows up on outstanding items?

Purchasing and Accounts Payable

- Is there a purchasing policy?
- Who can authorize purchases and approve payment of invoices
- What procedures are in place to review authorization, receiving and approval?

Payroll and Leave Time Processing

- Approval of time sheets
- Preparation and approval of payroll
- Payment of property taxes and other benefits and preparation of related returns
- Maintenance of leave time records and other payroll records

General Ledger Maintenance

- Posting transactions to the general ledger
 - who authorizes, approves and reviews posting?
- Adjusting journal entries – who is authorized to prepare, approve and review entries?
- Report preparation

Reconciliations

- Preparation, approval and review
 - Cash
 - Delinquent taxes
 - Other accounts receivable
 - Accounts payable
 - Payroll liabilities

Financial Reporting

- Internal reports
 - Detailed transaction reports
 - Account reconciliation
- External reports
 - Financial position (balance sheet)
 - Results of operations (income statement)
 - Details of account balances

Auditor's Report

- “The auditors shall report their findings in writing...”
- State statutes specifically require certain items be reported
- There are many other helpful items you may wish to consider adding

Auditor's Report

- CPA's auditor's report
 - Introductory paragraph – identified the audit work that was performed and the responsibility of the auditor
 - Scope paragraph – provides a general description of the nature of the work, examples of procedures performed, and any limitations the auditors faced
 - Opinion paragraph – states the opinion of the auditor as to the fair presentation of the financial statements and whether they are presented in accordance with generally accepted accounting principles

Auditor's Report

- Town auditor's report
 - Introductory paragraph – what you did
 - Objectives – what you wanted to demonstrate
 - Scope and methodology – how you did it
 - Opinion – what you think
 - Findings – what you found

Introduction

- “We have audited the accompanying financial statements of the Town of X, as of and for the year ended June 30, 2015, as listed in the table of contents.”
- “These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.”

Objectives

- “We conducted our audit in accordance with 24 VSA 1681-1684, which, among other things, requires that we examine and adjust the accounts of all town officers and all other persons authorized by law to draw orders on the town treasurer.”

Objectives

- “Our objectives were to
 - Validate the correctness of the town accounts
 - Detect fraud or errors in these accounts
 - Verify the financial condition and results of operations of the town as of and for the year ended June 30, 2014”

Scope and Methodology

- “To accomplish these objectives, we obtained an understanding of the operation of the town’s government, including internal controls over financial transactions.”
- “We interviewed town officials to gain an understanding of town operations.”
- “We reviewed the town’s accounting system, cash handling procedures, and segregation of duties.”

Scope and Methodology

- “To verify the existence and year end balance of cash accounts, we confirmed the year end balance with the bank.”
- “In addition, we performed a cash proof for all accounts with activity that was greater than \$XX,XXX.”

Scope and Methodology

- “To verify the amount of delinquent taxes at year end, we performed a reconciliation of taxes billed, tax adjustments, tax payments, and penalty and interest billed and collected.”
- “To verify the amount of accounts payable at year end, we performed a review of payments made sixty days subsequent to year end to detect unrecorded payables.”

Opinion

- “In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of X as of June 30, 2014, and the results of its operations for the year then ended.”

Findings

- Report any findings
 - Condition
 - Criteria
 - Cause
 - Effect
 - Recommendations
 - Management response

Town Auditor's Reports

- Town of Guilford
 - Starts with what the auditor's duties are and how they conducted their audit
 - Doesn't specifically express an opinion on the fairness of the financial statements
 - Handy guide to the town report at top of report

Town Auditor's Reports

- Town of Alburgh
 - Follows the format of a CPA audit report
 - Clearly states what they did, and clearly expresses an opinion as to the fairness of the presentation
 - Notes improvements to reporting based on previous findings

Town Auditor's Reports

- Town of Cabot
 - Makes note of audit by external auditors and the availability of their report
 - States what the auditors did and expresses an opinion
 - Note separate report from Select board chair regarding findings by the external auditors and their response

Town Auditor's Reports

- Town of Westfield
 - States what procedures were followed
 - Discussed findings directly with Select board
 - Made note there were no items outstanding over 30 days

Town Auditor's Reports

- Town of Ryegate
 - Refers to the statutory authority
 - Refers to the procedures they followed
 - Expresses an opinion on the fairness of the financial statements
 - Discloses a finding on maintenance of property tax records

Contents of the Report

- Statement of financial condition
- Summary of receipts and disbursements by budget category
- List of outstanding payables
- Report of deficits, if any
- Statement of condition of all trust funds
- Statement of outstanding bonds and notes

Statement of Financial Condition

- Town of Ryegate
 - Assets include cash, delinquent taxes, and other receivables
 - Liabilities include prepaid property taxes
 - No deferred inflows for unavailable tax revenues
 - Fund balances broken out by fund

Statement of Financial Condition

- Town of Northfield
 - Full modified accrual balance sheet
 - Receivables, prepaid expenses
 - Accounts payable, accrued payroll unavailable revenues
 - Fund balance by type – unavailable, restricted, assigned and unassigned

Summary of Receipts and Disbursements by Budget Category

- Town of Alburgh
 - Detailed listing of receipts and expenses
 - Reflects transfers to other funds to show net amount available to the general fund
 - Indicates beginning and ending cash balances

Summary of Receipts and Disbursements by Budget Category

- Town of Bethel
 - Budget comparison schedule with estimated tax rate impact of each article
 - Expenditure breakdown chart
 - Budget summary showing allocation of total budget to separate budget articles

List of Outstanding Payables

- All outstanding orders and payables more than 30 days past due
 - Statute is a bit confusing
 - Typically will only find a total amount of accounts payable, no detail

Report of Deficits

- 24 VSA 1523 (c) defines deficit
 - Excess of current liabilities and reserves over current assets
 - Current assets are those assets that are available to meet the cost of operations
 - Current liabilities are those liabilities that are payable within a relatively short period of time

Report of Deficits

- 24 VSA 1523 (a) outlines process that must be followed in the event of a deficit
 - Refunded through long-term borrowing
 - Vote a special tax to make up deficit
 - Add 5% or multiples of 5% when setting tax rate to make up deficit

Condition of Trust Funds

- Town of Bethel
 - Shows income and distributions to beneficiaries
 - Shows breakdown of investments and value of portfolio

Outstanding Bonds and Notes

- Town of Bethel
 - Details of each bond and note payable
 - Breakdown by fund
 - Interest rate and annual debt service
 - Date of final payment
 - Could also present original amount
 - Schedule of future debt service requirements
 - Schedule of changes in debt during the year

Outstanding Bonds and Notes

- Town of Northfield
 - 5 year projected schedule of notes and bonds payable
 - Shows current balance and date of final payment
 - Detail for each loan

Statement of Taxes Raised

- Town of Cabot
 - Shows different components of the grand list
 - Shows breakdown of budgets voted
 - Reconciles taxes billed and collected
 - Grand list and tax comparison schedule 2008-2014

Statement of Taxes Raised

- Town of Guildford
 - Shows breakdown of articles voted
 - Shows the calculation of the highway fund and municipal fund tax rates
 - Shows how local agreement rate is calculated

Salary Information

- Town of Cabot
 - Shows salaries by individual
 - Reconciles quarterly wages and taxes to different tax returns
 - Reconciles total wages to individual expense accounts

Questions

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