

# REPORTING ON THE RESULTS OF THE AUDIT

# Agenda

- What the statutes say
- Some reporting examples

# Contents of the Report

- 24 VSA 1683
  - “[t]he report shall show a detailed statement of the financial condition of such town and school district for the fiscal year”
  - Statute specifically requires certain items to be reported

# Contents of the Report

- Statement of financial condition (balance sheet)
- 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

# Contents of the Report

- Additional items
  - Comparative budget and actual reports
- Outline of the report
  - Scope
  - Authority
  - Exceptions and modifications
  - Recommendations
- Inconsistency between audit report and accounts

# What the Report Should Communicate

- The objective of the audit
- The accounts and reports reviewed
- Procedures performed
- Conclusion about the financial reports
- Findings, if applicable

# Professional Audit Reports

- Three paragraph opinion
  - Introductory paragraph
  - Scope paragraph
  - Opinion paragraph

# Introductory Paragraph

- Identifies the audit work that was performed and the responsibilities of the auditor
- “We have audited the accompanying financial statements of the Town of X as of and for the year ended June 30, 2014 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.”



# Scope Paragraph

- Provides a general description of the nature of the work, examples of procedures performed, and any limitations the auditors faced
- “We conducted our audit in accordance with auditing standards generally accepted in the United States of America.”
- “Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.”

# Scope Paragraph

- “An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.”
- “An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.”
- “We believe that our audit provides a reasonable basis for our opinion.”

# Opinion Paragraph

- States the opinion of the auditor on the financial statements and whether they are in accordance with generally accepted accounting principles
- “In our opinion, the financial statements referred to above present, in all material respects, the financial position and changes in financial position of the Town of X as of June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.”

# Town Audit Reports

- Can you say you audited according to generally accepted auditing standards?
- Can you say you are qualified to assess the accounting principles used?
- Can you say you are qualified to evaluate the overall financial statement presentation?

# Some Thoughts

- Introduction – 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

- Identifies the audit work that was performed and the responsibilities of the auditor
- “We have audited the accompanying financial statements of the Town of X as of and for the year ended June 30, 2014 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 V.S.A. 1681-1684, which, among other things, require 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 (1) validate the correctness of the town accounts, (2) detect fraud or errors in these accounts and (3) 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

- Reporting findings
  - Condition
  - Criteria
  - Cause
  - Effect
  - Recommendations
  - Management response

# Condition

- Condition: The Town has not established procedures adequate to ensure that the bank reconciliations are reviewed and approved by employees who are not involved in the cash receipt or cash disbursement function

# Criteria

- **Criteria:** Generally accepted accounting principles require that organizations establish and maintain adequate internal controls such that errors and malfeasance can be prevented or detected in a timely manner.

# Cause

- Cause: The Town Treasurer reconciles the bank statements even though that person also handles receipts and disbursements, and no other employee reviews or approves the reconciliation



# Effect

- Effect: Errors in financial reporting or misappropriation of funds is possible without being detected in a timely manner because there is no review or approval of bank reconciliations

# Recommendation

- Recommendation: The Town should adopt procedures whereby an employee who is not involved in receipts or disbursements should either prepare the bank reconciliations, or review and approve bank reconciliations prepared by the Treasurer.

# Management Response

- Bank statements will be sent directly to the elected auditors, who will prepare the reconciliation and test the reporting of receipts and disbursements.

Questions

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