What We Will Be Covering
Participants will learn about an audit:
• Definition
• Purpose
• Frequency
• Preparation
• Audit process
• Reporting
• Agreed Upon Procedures
• Basic Audit
• Where to find help!

Audit
• Systematic process
• Objectively obtaining and evaluating evidence regarding assertions about economic actions and events
• Ascertain the degree of correspondence between those assertions and established criteria
• Communicating the results to interested users
Audit Evidence
AU-C 500.04

• The objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Assertions

• Occurrence - Transactions or Events that have been recorded or have occurred that pertain to the entity
• Completeness - All transactions and events that should have been recorded have been recorded.
• Accuracy - Amounts and other data relating to recorded transactions and events have been recorded appropriately (i.e. at the proper amount).
• Cutoff - Transactions and events have been recorded in the correct accounting period.
• Classification - Transactions and events have been recorded in the proper accounts.

Assertions (con’t)

• Existence - Assets, liabilities, and equity interests exist
• Rights and obligations - The entity holds or controls the rights to assets, and liabilities are the obligations of the entity
• Completeness - All assets, liabilities, and equity interests that should have been recorded have been recorded.
• Valuation and allocation - Assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.
The Auditor of State is the constitutional officer responsible to audit more than 5,900 local governments, state agencies, boards & commissions, including colleges and universities.

Some audits are performed by Independent Public Accountants (IPAs) on a contract basis.

**Purpose of an Audit**

- Expressing an independent opinion
- Add credibility to financial statements
  - Whether the financial statements comply with established criteria
  - Management’s assertions underlying the information included in the f/s

**Frequency**

- Ohio law – biennial– Ohio Rev. Code § 117.11
- Single audit – annual
  - Annual federal expenditures of $750,000
- Any time
  - Government request
  - Auditor of State’s initiative
When will my audit be done

- Goal is within 9 months of FYE
- Many factors involved
  - Client availability
  - Auditor availability
  - Condition of records

Where will my audit be done?

- Client Location
- Regional Office
- RWL
- Another audit site
  - County
  - Other Entity

AOS Regional Office Numbers
Southeast 800-441-1389
East 800-443-9272
Southwest 800-368-7419
Northeast 800-626-2297
Central 800-443-9275
West 800-443-9274
Northwest 800-443-9276
**The Audit Process**

- Who does my audit/AUP?
  - AOS Staff
  - IPA Staff

- Who decides if AOS or IPA does my audit?
- How many auditors does it take?

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**IPA Audit**

- Auditor of State request
- Client request
- Auditor of State approves scope of audit
- Submitted to AOS Center for Audit Excellence (Quality Assurance)

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**Preparing for an audit**

- Bank Reconciliations
- Maintenance of public records
What records do the auditors need?

- Bank reconciliations
- Year end financial ledgers
- UAN
- Bank statements
- Cancelled checks or imaged
- Purchase orders
- Invoices, other supporting documentation
- Minutes
- Governing board info
- Township policies
- Tax settlement sheets

What records do the auditors need? (continued)

- Duplicate receipt books for all cash collection points
- Receipt support
- Approved rates in force (zoning, cemetery, etc.)
- 1099s & W2s
- Payroll records- timesheets, certifications, approved pay rates, leave records, etc.
- Payroll tax remittance information and forms
- Budgetary files– Appropriations, Certificates of Estimated Resources, etc.
- Debt agreements
- Support for credit card transactions
- Support for health insurance reimbursements

Quiz
A public entity must be audited

- A) Every year
- B) Every 3rd year
- C) Every 2 years if single audit
- D) Never
- E) Every 2 years
Cost

- More we do, more it will cost
- Pull support documentation
- Organize records

- AUP and Basic audit engagements cost less than full audits

Note: Auditor independence must be maintained

Financial Statement Audits

- Plan the audit
- Gather or update information needed
- Understand internal control structure
- Perform substantive tests
- Compliance Testing
- Audit completion
- Reporting

Planning the Audit

- Pre-audit conference with officials/audit committee
- Information needed for the audit
- Changes from prior year
  - Personnel/systems
Preaudit Conference

- Staff assignments
- Location/needs
- Estimated fieldwork dates
- Estimated deliverable dates
- Audit issues
- LOA
- Active shooter/evacuation policy

Gather or update information

- Obtain knowledge of clients operations
- Review prior year working papers
  - Recurring engagement-update
  - New engagement-review predecessor working papers
- Update auditor knowledge
- Identify inherent risk
- Assess fraud risks

Letter of Arrangement (LOA)

- Purpose to establish an understanding of the client’s responsibilities, terms of engagement & fees
  - Confidential information
Internal Controls

- A process
- Affected by a client’s governing board, management and other personnel
- Designed to provide reasonable assurance of the achievement of certain objectives

Substantive Tests

- Systems derived
- Will focus on significant transaction cycles
  - Intergovernmental Receipts
  - Property Tax Receipts
  - Payroll disbursements
  - Nonpayroll disbursements
  - Charges for Services
  - Permit receipts
  - Debt

Substantive Tests

Test of details
- Confirmation
- Inspection
- Reperformance
- Vouching

Analytical Procedures
- Year to Year Comparisons
- Scans
Ohio Compliance Supplement

- Review Ohio Compliance Supplement!
- http://www.ohioauditor.gov/references/compliancemannuals.html
- Become familiar with the requirements and testing procedures so you know what the auditors might ask for.
- Even if the law has been around a long time, changes can occur, and amended guidance and procedures may be included.
Types of Audit Comments

Report Level
Management Letter
Verbal

Types of Audit Comments

Single Audit
Update
GAGAS
Finding for Recovery

Noncompliance
Internal Control
Material Weakness or Significant Deficiency
Noncompliance
Internal Control
Material Weakness or Significant Deficiency

Noncompliance
Recommendation
Management Letter
Or Verbal
**Post audit Conference**

- Meet with officials (Board, Fiscal Officer, Audit Committee) to go over results of audit
- These officials should have results ahead of time to look over
- Obtain Representation Letter

**Representation Letter**

- Letter from management
- Gave auditors all records
- All material items disclosed
- Any adjustments not made are immaterial

**Report Issuance**

- Report released by the AOS Clerk of the Bureau in Columbus
- Posted to the AOS web site
- Your audit report (and Management Letter) is a public record once released
Agreed Upon Procedures (AUP)
Ohio Rev. Code § 117.114 establishes criteria for entities to be eligible for an AUP. Townships are a qualifying entity. If a Township qualifies, AUPs can be done for 2 audit cycles and then an audit is completed.

Eligibility Requirements:

AUP report shells:
http://www.ohioauditor.gov/references/agreeduponprocedures.html

What is a Basic Audit?
Audit Bulletins 2012-007, 2015-001, and 2015-007 allow certain public offices meeting specific criteria to choose to have reduced procedures performed, called a basic audit. Criteria that a Township must meet to qualify:
• Less than $400,000 in expenditures for a 2 year period
• Reconciled & has not declared unauditable
• No findings for recovery related to fraud or theft in prior audit
• Not under investigation by AOS SIU
• Not in fiscal emergency
• Not an initial audit
• Not a component unit of GAAP or OCBOA Cash/Modified Cash Entity
• Filed complete set of financial statements & note disclosures in AOS Hinkle System
Help?

- Other fiscal officers
- Your legal counsel
- Township Handbook
- UAN Handbook
- Associations
- AOS regional offices
- AOS web site

Always Remember........
Auditors are here to help!!