

# AUDIT ISSUES

## Georgia Department of Audits and Accounts

- ▶ GPLS Presentation
  - ▶ October 12, 2006
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# TOPICS FOR DISCUSSION

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- GASB, SAS and GAAP
- Types of Audits
- Financial Statement Presentation
- Important recent GASB pronouncements
- Recent Statements on Auditing Standards
- General Discussion Topics



# GASB, SAS, and GAAP

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- ▶ GASB- Governmental Accounting Standards Board- Established in 1984. The GASB is the recognized standard setting authority that will establish accounting and financial reporting standards for activities and transactions of state and local governmental entities
- ▶ SAS-Statement on Auditing Standards- Issued by the Accounting Standards Board of the American Institute of Certified Public Accountants (AICPA). Auditors are required to comply with these standards when conducting audit engagements
- ▶ GAAP –Generally Accepted Accounting Standards- Conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. For Libraries, the GASB is the recognized as the authority for governmental GAAP.



## Types of Audits

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- ▶ The majority of Library audits are conducted in accordance with auditing standards generally accepted in the United States of America. Other audits that we conducted are done in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. (*The Yellow Book*).



## Types of Audits

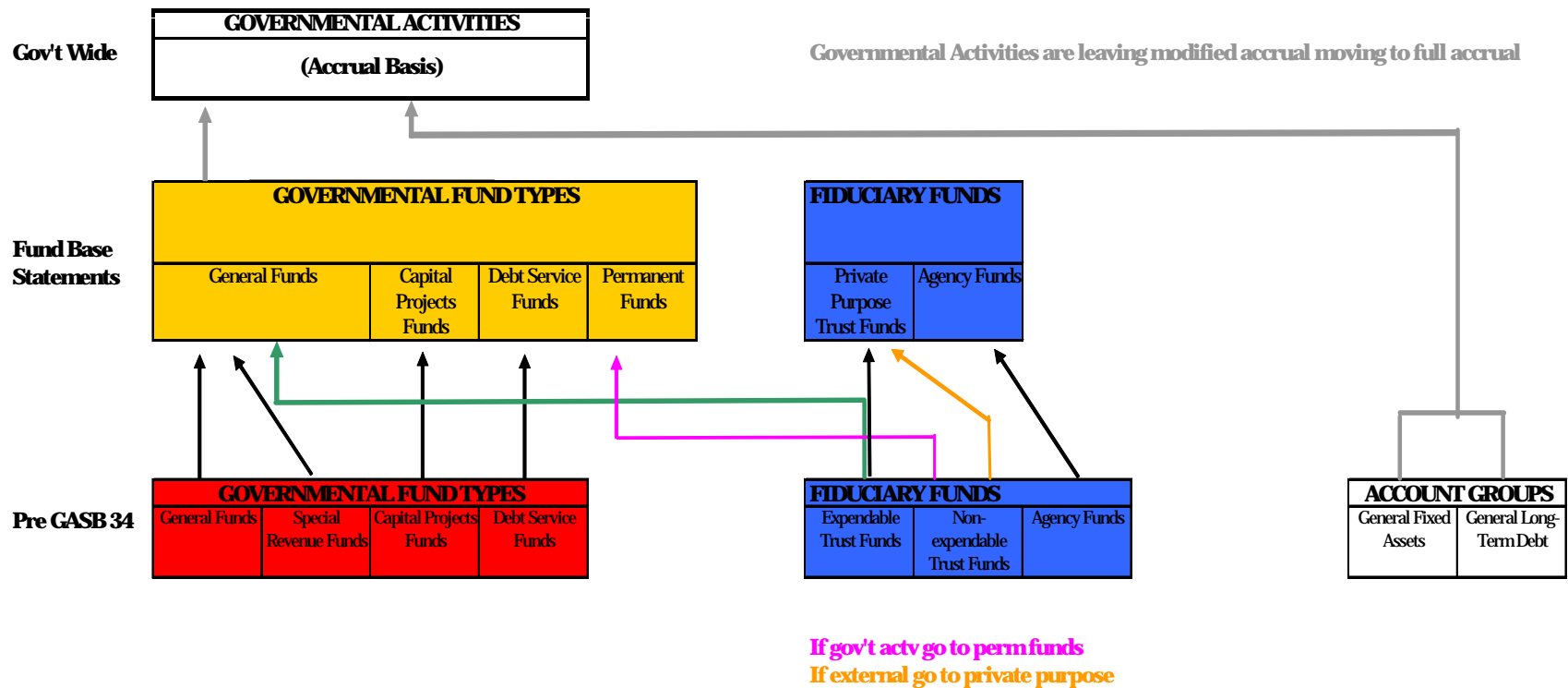
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- ▶ The difference between the two types of audits depends upon the total expenditure of federal awards during the fiscal year under audit.
- ▶ Those entities expending > \$500,000 in federal awards must be audited in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.
- ▶ These are normally referred to as “Single Audits” while Library as “GAAS” audits.



# FINANCIAL STATEMENT PRESENTATION

## ► GASB 34 Presentation Model



# FINANCIAL STATEMENT PRESENTATION

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## Governmental Fund Statements

- Balance Sheet [exh c.xls](#)
- Statement of Revenues, Expenditures, and Changes in Fund Balances [exh e.xls](#)

## Entity Wide Statements

- Statement of Net Assets [exh a.xls](#)
- Statement of Activities [exh B.xls](#)

## Reconciliation Statements

- Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets [exh d.xls](#)
- Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities [exh f.xls](#)



# FINANCIAL STATEMENT PRESENTATION

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## ▶ STATEMENT OF NET ASSETS

- ▶ Identify the things of value the district owns (assets), the amounts it owes to others (liabilities), and what is left (net assets after liabilities have been satisfied)
- ▶ Determine if the district's fiscal status is improving or declining
- ▶ Assess the district's ability to cover its costs and to continue financing services in the future
- ▶ Find out what resources the district can use to provide new services or start new programs





# FINANCIAL STATEMENT PRESENTATION

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## ▶ STATEMENT OF ACTIVITIES

- Learn where the district gets resources and what it uses them for
- Find out what it costs the district to provide education services
- Determine the extent to which the district's various activities cover their own costs with user fees, charges, and grants
- Identify out-of-the ordinary costs and unusual sources of funding
- Discover if sufficient resources were raised during the year to cover costs, or if there was a shortfall



# FINANCIAL STATEMENT PRESENTATION

## ▶ OTHER REQUIRED DISCLOSURES

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### ➤ Management Discussion and Analysis (MD&A)

- ▶ MD&A is required supplementary information. Failure to include in report will be disclosed in your opinion letter.
- ▶ Information in MD&A must agree to the financial statements
- ▶ Information to be reported in the MD&A is restricted by GASB Statement No. 37.
- ▶ Only currently known factual information can be included.

### ➤ Notes to the Financial Statements

- ▶ Considered part of basic financial statements because they convey information essential to fair presentation of financial statements which are not readily apparent on the face of the financial statements
- ▶ Financial information reported in notes should tie to amounts reported on face of financials.

### ➤ Budget Comparison

- Required Supplementary information per GASB 34
  - Expenditures required to be reported by function. [sch 1.xls](#)
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# RECENT SIGNIFICANT GASB PRONOUNCEMENTS

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## ➤ GASB 34

- Significantly changed financial reporting requirements for state and local governments (see slide 6)
- Before issuance of this Statement financial reporting was at the fund level, basically a modified accrual approach
- Statement 34 required reporting at the fund level as well as the entity wide level, which is a full accrual approach.
- The primary focus of this Statement was not to change GAAP, but to change financial statement reporting so that it would be more meaningful to users of the financial statements.



# RECENT SIGNIFICANT GASB PRONOUNCEMENTS

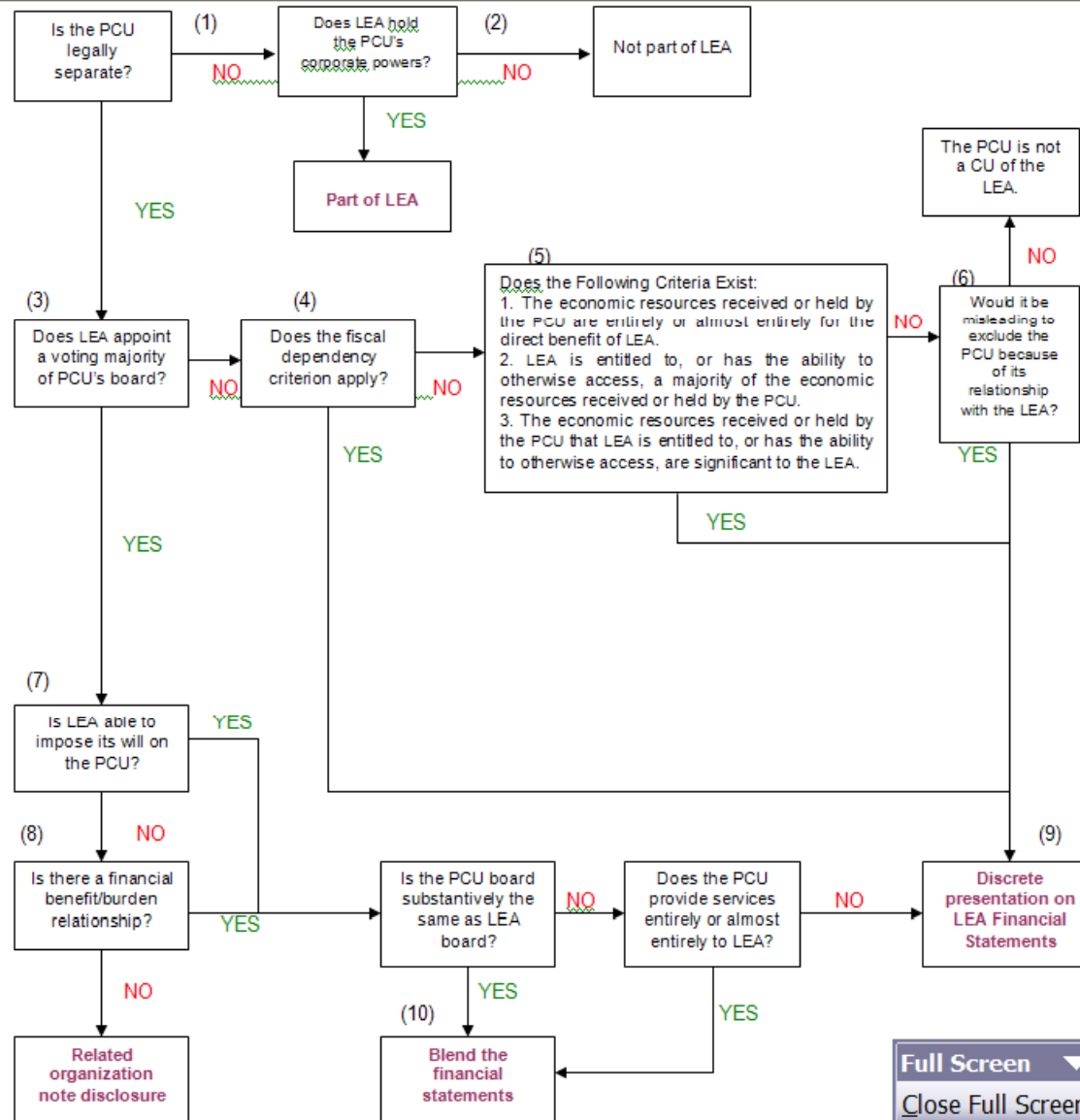
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## ➤ GASB 39

- Statement provided guidance for determining whether certain organizations should be reported as component units.
- Statement provides matrix for primary government to use in this determination
- Component units would be either discretely presented or blended with financial statements depending on accountability and fiscal dependency criteria
- An organization should only be reported as a component unit of one reporting entity.
- Failure to report a component unit meeting the criteria of this Statement would be a departure from GAAP and could result in an adverse opinion.



# RECENT SIGNIFICANT GASB



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PCU - Potential Component Unit could be a Foundation, Corporation, or Organization  
 CU - Component Unit could be a Foundation, Corporation, or Organization

# RECENT SIGNIFICANT GASB PRONOUNCEMENTS

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## ➤ GASB 40

- Changed note disclosure requirements related to deposits and investments
- Drastically beefed up disclosure requirements for investments, especially investments in debt securities.
- New disclosures required for interest rate risk, concentration of credit risk, custodial credit risk, and foreign currency risk.
- Governments are also required to disclose their policies that are related to the risks disclosed or state that they have no policy.
- If Libraries have their cash in investment vehicles other than CD's or cash this statement would effect your disclosure requirements.



# RECENT STATEMENTS ON AUDITING STANDARDS

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## SAS 94

- Update to SAS 55 and SAS 78
- SAS 94 requires the auditor to consider how an organization's use of Information Technology affects audit strategy in relation to gaining an understanding of the internal controls and ultimately how testing (test of controls and substantive tests) will be performed.
- We must gain an understanding of your internal controls to plan the audit and determine the extent of testing.
- We use the following questionnaires to assist our auditors in gaining our understanding of your controls
  - General Questionnaire
  - Financial Reporting (Information) System Questionnaire
  - Control Activities Questionnaire
  - New Segregation of Duties Worksheet



# RECENT STATEMENTS ON AUDITING STANDARDS

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## ➤ SAS 99

- Requires auditor to consider fraud when conducting a financial statement audit
  - Auditor must design the audit to provide reasonable assurance of detecting *material* misstatements resulting from fraud, violations of laws and regulations and violations of contract provisions or grant agreements
  - Statement requires auditor to document consideration of potential fraud.
  - Auditor should make inquiries to management and other employees about the possibilities of fraud in the workplace
  - Statement provides guidance on how to report potential or risks of fraud. This could result in a reportable condition finding if controls are not in place to mitigate or detect fraud.
  - When fraud is detected, materiality does not come into play. All fraud is to be reported.
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# RECENT STATEMENTS ON AUDITING STANDARDS

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## ➤ SAS 112

- ▶ New SAS which establishes guidance for communicating internal control matters identified in an audit
- ▶ Requires the auditor to communicate to management significant deficiencies and material weaknesses identified in the audit
- ▶ Identifies lack of preparation of financial statements as being an inadequate design of internal controls.
- ▶ Therefore, if auditor assists in preparation of financials to be audited, it would result in material weakness finding for 2007 engagements.



## OTHER DISCUSSION TOPICS

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### ▶ Capital Assets

- Library Depreciation schedule including activity for affiliates when activity is not in accounting records. Activity not on Library's books should not be included.
- Capital Asset activity not being depreciated using consistent methodology
- No approved Capital Asset policy



## OTHER DISCUSSION TOPICS

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- ▶ **Capital Leases**

- ▶ Capital lease activity should be maintained in a format including beginning balances due, new leases added during year, payments on leases (principal and interest) and ending balance due (principal and interest). This information is needed for note disclosure as well as disclosure on face of financials for principal balance due.



## OTHER DISCUSSION TOPICS

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- ▶ Operating leases
  - ▶ Should be kept up with in a fashion similar to capital leases
  - ▶ Lease activity should be reported in Notes



## OTHER DISCUSSION TOPICS

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### ▶ **Compensated Absences**

- This is paid time off available for employees normally in connection with vacation.
- If the leave is earned it should be recorded as a liability at the entity wide level
- Sick leave would normally not be included in calculation because it is contingent on a future event, however, if unused sick leave is payable upon termination, then it is no longer contingent and becomes part of the compensated absences liability.

