

# Preparing for an Audit

**Presented by:**

**Jordan Zwygart, CPA**

**Zwygart John & Associates, PLLC**

**E-mail: [jordan@myidahotax.com](mailto:jordan@myidahotax.com)**

**Phone: (208)459-4649**



**ZWYGART JOHN**

**CERTIFIED PUBLIC ACCOUNTANTS**

**Zwygart John & Associates CPAs, PLLC**

16130 North Merchant Way, Suite 120 ♦ Nampa, Idaho 83687

Phone: 208-459-4649 ♦ FAX: 208-229-0404

# Questions to answer

- ▶ What is an audit is and what isn't it?
- ▶ What is your role in the audit?
- ▶ What does the auditor need?
- ▶ How does the audit relate to my accounting records?

# What is an audit?

- ▶ CPA provides reasonable assurance that there is no material misstatement in the financial statements.
- ▶ The objective is to express an opinion on the financial statements as a whole.
- ▶ Must be performed by an independent accountant.
- ▶ CPA must obtain an understanding of the entity's internal controls.
- ▶ CPA uses analytical procedures and inquiry, but also performs verification and other procedures to obtain enough appropriate audit evidence to express an opinion.

# What an audit is not

The purpose of an audit is not to...

- ▶ “Clean up” your books at the end of the year.
- ▶ To fix everything that was done wrong.
- ▶ To make your books GAAP
- ▶ To find all fraud in the district.

# Do I need one?

- ▶ If your total expenditure are over \$250,000 you must have an audit every year.
  - ▶ If your total expenditures are between \$150,000 and \$250,000 you can do a biannual audit.
  - ▶ If your total expenditures are less than \$150,000 then you do not need an audit.
- 
- ▶ Idaho State Statutes Title 67-450B

# What is your role in the audit?

## You are responsible for:

- ▶ Providing accurate accounting records for the auditor to look at.
- ▶ Have supporting documents to back up your numbers.
- ▶ Have internal controls in place to make sure that transactions are being recorded correctly.
- ▶ Know why items were recorded in your accounting system.

# What does your auditor need?

- ▶ All banking accounts should be reconciled to your accounting software before the audit begins. The auditor will want to see the bank reconciliations.
- ▶ Keep a list of what your auditor asks for and make a folder on your computer to keep a copy of everything for yourself.
- ▶ Have something that supports the numbers that show up on your balance sheet.
- ▶ Ask your auditor for a list of items they will want before they come.

Highway District AUDIT LIST Year End
Bank Books back up with password or trial balance from accounting system.
Original Budget and amended budget (if most if possible or paper) need to see newspaper clipping of the original budget.
Board Meeting Minutes - beginning of year through when the audit is taking place.
List of Commissioners for the year and contact information.
Listing of any related party transactions; need how related, name, and dollar amount of transactions for the year. If there is any outstanding balances due to or from the parties.
Attorney; need name and address; if any lawsuits information we need to be aware of. We will need to look at the invoices for the attorney.
All accounting related ordinances and policies and procedures adopted during the year.
All important correspondence with any oversight agencies i.e. State, Rural Development, and Federal agencies.
<b>Cash and bank accounts.</b>
Bank Statements & Reconciliations for the year - All Accounts. Make sure old state checks have been properly taken care of. The statements should be reconciled to the financial statements.
The report showing all fund cash accounts are listed in the bank reconciliation.
We need to review the bank statements up to the current month.
State Treasurer's Reports - Monthly Investment Reports for the year if you are using the LOP. Any annual spread sheets or reports to reconcile to each fund.
Reports any other investment statements for the year.
Reports showing how much accounts are collateralized or FDIC insured if this is being done.
A list of any changes to investments such as closing of CDA, new investment plans or sheets of LOP, etc.

# How does the audit relate to my accounting records?

- ▶ The financial statements are yours, not your auditors.
- ▶ The audit should match up with your accounting records.

HIGHWAY DISTRICT  
 Report on Audited  
 Basic  
 Financial Statements  
 and  
 Supplemental Information  
 For the Year End

SAMPLE

## QUALITY CONTROL CHECKLIST FOR FINANCIAL STATEMENTS

ENTITY: Fire District  
 PERIOD: Year Ended 2019

We have asked Audit to help prepare OUR financial statements. To maintain Audit Firm's independence we have reviewed the financial statements. This checklist is our review of OUR financial statements.

### Auditor's Report on the Financial Statements:

Consistency Category	Description	Done
Coverage of All Statements and Schedules	Auditor's report should address all financial statements and schedules included in the financial report by expressing an opinion, giving its reliance to coverage, or disclaiming an opinion on each statement and schedule or other information	
Dates of Statements and Schedules	Statements and Schedules dates should be for current year. Balance sheets/statements of net assets should be by day (Year End 2019) while change statements should be by period (For the fiscal year ended Year End 2019)	
Table of Contents to Statements and Schedules	Titles of Statements and Schedules and titles in the Table of Contents should be consistent	

### Financial Statements:

Consistency Category	Description	Done
Report Draft to Trial Balances	Financial statement amounts in the report draft should agree with the amounts in my final financial statements. (From my computer)	
Amounts Within the Basic Financial Statements	Government Wide (GW) Statement of Net Position Total (ending number) should agree to the Statement of Activities for governmental, business-type activities and component units - Net Position (ending number). If applicable Proprietary Fund Cash Flow Statement Ending Cash and Cash Equivalents should agree to Proprietary Fund Statement of Net Assets Cash and Cash Equivalents (total of unrestricted and restricted)	
Prior Year to Current Year	Prior year report's GW Ending Net Position for governmental activities should agree to current year report's Beginning Net Position (prior to considering any prior period adjustments) Prior year report's Ending Cash and Cash Equivalents on the Proprietary Fund's Cash Flow Statement by fund type should agree to current year report's Beginning Cash and Cash Equivalents	
Notes to Financial Statements	Note amounts throughout the report should agree to basic financial statement amounts. Changes in capital assets and long-term debt should reconcile to additions, disposals, retirements and other amounts in the basic financial statements.	
RH and SI to Financial Statements and Notes	Current year information included in required supplementary information and other supplementary information should be consistent with amounts reported in the basic financial statements and notes	

## ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER

[Prepared on client's letterhead]

[Insert date]  
 [Insert name and address of audit firm]

Dear [insert name]:

This representation letter is provided in connection with your audit of the [insert the basic financial statements] of [Entity Name] as of [insert date] and for the [insert periods] then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of [Entity Name] in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described or limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of [insert date of auditor's report].

### Financial Statement:

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attendance engagements, and other studies related to the audit objectives and whether related recommendations have been implemented. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosures have been adjusted or disclosed.
- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.

# Controls

- ▶ Controls are the things you do to protect yourself and the District.
- ▶ Some Common Controls
  - ▶ Have a person reconcile the bank statements that cannot sign.
  - ▶ Have a 2<sup>nd</sup> or 3<sup>rd</sup> person review and initial documents
    - ▶ Bank statements
    - ▶ Invoices
  - ▶ Make sure that the Commissioners are involved and reviewing things.
    - ▶ Bank Statements
    - ▶ Bank Reconciliation
    - ▶ Financial Statements

# Other issues

- ▶ Independence
  - ▶ You are responsible for the financial statements.
- ▶ Fixed Asset List
  - ▶ You need to keep a list of fixed assets.
- ▶ Year-end Adjustments
  - ▶ Your trail balance needs to match the audit.