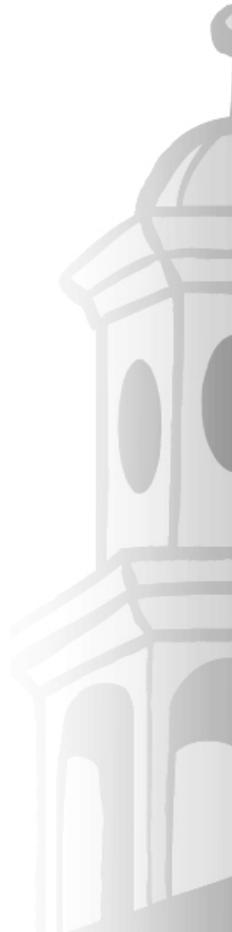


# Preparation and Management of the Audit

**William Hall**  
**Senior Financial Consultant**  
**Vermont League of Cities and Towns**  
**March 29, 2016**



# Agenda

- **Practical considerations for the audit**
- **Interim procedures**
- **Managing the audit**



# Practical Considerations

- **Auditors must “examine and adjust the accounts of all town officers...and report their findings in writing...at least ten days before the annual meeting”**
- **Obligations of local auditors vary from town to town (size of town, experience of auditors, use of independent auditors)**
- **Auditors will spend a significant amount of time examining records and preparing the written report**
- **Their workload can be made easier if procedures are conducted throughout the year**



# Practical Considerations

- **Town auditors “shall meet at least 25 days before each annual town meeting”**
- **From a practical standpoint, it is more common to begin the work much earlier**
- **The town’s year-end (fiscal versus calendar) will also impact the workload**
- **It is common for auditors to meet more than once – first to divide up the work, then at other times to review the work, draft the report, and then formally adopt the report**



# Practical Considerations

- **Towns may vote to eliminate the office of town auditor**
- **Considerations:**
  - **Auditors can provide an essential element of internal control**
  - **Auditors can catch errors earlier in the reporting period**
  - **Auditors can examine items that independent auditors overlook**
  - **Auditors can assist independent auditors in understanding transactions**
  - **No need to duplicate the work of independent auditors**



# Interim Procedures

- **Monthly bank reconciliations**
- **Property tax reconciliations**
- **Payroll reconciliations**
- **Review of invoices to verify proper procedures have been followed**
- **Review of general ledger postings to determine that revenues and expenditures have been posted to the proper accounts**



# Managing the Audit

- **Auditors' meeting**
  - **Schedule initial meeting**
  - **Provide proper notice**
  - **Consider open meeting requirements**
  - **Outline future meeting schedule**



# 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 payroll 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**

