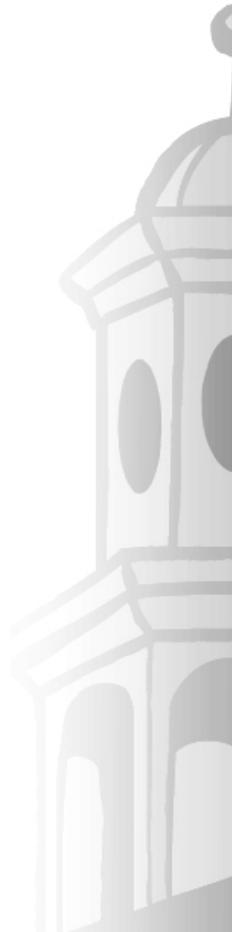


# Audit Procedures and Checklists

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**March 29, 2016**



# Audit Procedures Checklist

- **General procedures**
  - Review of select board minutes
  - Analytical review of financial statements
- **Account specific procedures**
  - Balance sheet accounts
  - Revenue and expenditure accounts



# General Procedures

- **Review prior year audit file**
  - **Were there significant adjustments in the prior year?**
  - **Were there specific accounts that were problematic in auditing?**
  - **Are there items in the prior year that will have an impact on the current year?**
  - **Helps in planning procedures for current year**



# General Procedures

- **Read minutes of the annual meeting and any special meetings**
  - **Are all articles affecting the financial statements properly reflected in the statements**
  - **Trace approved budget and any subsequent amendments to the budget amounts in the financial statements**



# General Procedures

- **Read minutes of select board meetings**
  - **Salary rates and changes**
  - **Ordinances and resolutions adopted**
  - **Approval of tax anticipation borrowing**
  - **Transfers or loans between funds**
  - **Grant applications**
  - **Purchase and sale of major equipment**
  - **Discussion of contingent liabilities (e.g., lawsuits)**



# General Procedures

- **Prepare confirmation letters**
  - **All cash accounts**
  - **All investments**
  - **All loans and bonds**



# General Procedures

- **Review current year financial statements and perform an analytical review**
  - **Compare current year actual to current year budget**
  - **Compare current year actual to prior year actual**
  - **Obtain explanations for any significant variations**



# Account Specific Procedures

- Procedures performed will depend on a number of factors
  - Results of review of system of internal control
  - Results of prior year audit procedures
  - Accounting and financial reporting method used
  - Amount of available time/budget
- May need to stagger procedures from year to year



# Account Specific Procedures

- **Balance sheet accounts**
  - **Petty cash**
  - **Checking and savings accounts**
  - **Investments**
  - **Taxes receivable**
  - **Other accounts receivable (including grants)**
  - **Capital assets**
  - **Accounts payable and accrued liabilities**
  - **Bonds and notes payable**



# Account Specific Procedures

- **Revenue and expenditure accounts**
  - **Tax revenues**
  - **General revenues**
  - **Payroll disbursements**
  - **General disbursements**



# Petty Cash

- **Count petty cash fund(s)**
- **Reconcile to balance in general ledger**
- **Test a sample of reimbursements to fund**
  - **Are reimbursements supported by proper documentation?**
  - **Is fund maintained on an imprest basis and reimbursement restores fund to proper balance**
  - **Are reimbursements made payable to the custodian of the account?**



# Petty Cash Reconciliation

## ANYTOWN, VERMONT PETTY CASH RECONCILIATION JUNE 30, 20XX

Petty Cash Summary		
Administration	\$ 25.00	
Town Clerk	150.00	
Public works	50.00	***
Public safety	75.00	
Recreation	<u>50.00</u>	
 Total Petty Cash	 <u>\$ 350.00</u>	
 Petty Cash Test - Public Works		
Cash on hand	<u>\$ 22.30</u>	
Receipts		
Bond Auto Parts - oil filter	14.95	
Anytown Post Office - postage for return	<u>12.75</u>	
 Total receipts	 <u>27.70</u>	
 Total Petty Cash	 <u>\$ 50.00</u>	 ***



# Cash Reconciliation

- **Review year end reconciliation**
  - **Trace balance per bank to confirmation or statement**
  - **Trace balance per books to general ledger**
- **Verify deposits in transit and outstanding checks to next statement**
  - **Are clearing times reasonable?**
- **Review other reconciling items**
- **Perform a test on transfers between funds**
  - **Were all transfers recorded in the same year?**



# Bank Reconciliation

ANYTOWN, VERMONT  
BANK RECONCILIATION  
JUNE 30, 20xx

	<u>Balance Beginning</u>
<b>Balance per Bank</b>	
Checking account	\$ 970,415.67
<b>Deposits in transit</b>	6,712.68
<b>Outstanding checks</b>	(83,559.80)
<b>Other reconciling items</b>	
Deposit corrections	-
NSF checks in transit	<u>20.00</u>
<b>Balance per Books</b>	<u><u>\$ 893,588.55</u></u>



# Cash Reconciliation

- **Consider preparing a proof of cash**
  - **More important if there are weaknesses in internal control**
  - **All bank activity (beginning balance, deposits, disbursements, and ending balance) is reconciled with book activity**



# Proof of Cash

ANYTOWN, VERMONT  
PROOF OF CASH  
JUNE 30, 20XX

	<u>Balance Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance End</u>
<b>Balance per Bank</b>				
Checking account	\$ 803,442.43	\$ 469,451.12	\$ (302,477.88)	\$ 970,415.67
<b>Deposits in transit</b>				
Beginning of month	4,578.25	(4,578.25)		-
End of month		6,712.68		6,712.68
<b>Outstanding checks</b>				
Beginning of month	(67,841.22)		67,841.22	-
End of month			(83,559.80)	(83,559.80)
<b>Other reconciling items</b>				
Deposit corrections	0.10	(0.10)		-
NSF checks in transit	25.00	(45.00)	40.00	20.00
<b>Balance per Books</b>	<u>\$ 740,204.56</u>	<u>\$ 471,540.45</u>	<u>\$ (318,156.46)</u>	<u>\$ 893,588.55</u>



# Proof of Cash

ANYTOWN, VERMONT  
PROOF OF CASH  
JUNE 30, 20XX

	<u>Balance Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance End</u>
<b>Book Activity</b>				
<b>Cash Receipts</b>				
Property taxes		\$ 67,458.12		
Utility receipts		16,877.21		
Other cash receipts		387,126.87		
<b>Cash Disbursements</b>				
Accounts payable			(215,674.33)	
Payroll			(102,457.58)	
<b>Other Activity</b>				
Interest earnings		78.25		
Bank fees			(24.55)	
<b>Total Book Activity</b>		<u>\$ 471,540.45</u>	<u>\$ (318,156.46)</u>	
<b>Difference</b>		<u>\$ -</u>	<u>\$ -</u>	



# Cash Receipts Activity

- In conjunction with cash proof review cash receipts journals for the month selected
- Trace individual bank deposits to the bank statement
- Review supporting documentation for deposits (can be done using sampling)
- Verify that all revenues from the state have been properly posted



# Cash Disbursement Activity

- In conjunction with cash proof review cash disbursements journals for the month selected
- Review supporting documentation for disbursements
  - Agree with invoices?
  - Agree with cancelled checks?
  - Agree with select board orders?
  - Agree with required approvals?
  - Agree with expense account distribution?



# Investments

- **Review transaction reports**
- **Trace activity to general ledger**
- **Verify year end balances**



# Taxes Receivable

- **Prepare or review tax reconciliation (both current taxes and delinquent taxes)**
  - **Review delinquent tax warrant**
  - **Compare collections to cash receipts journal**
  - **Verify abatements**
- **Coordinate with tax revenue test**



# Property Taxes Receivable

ANYTOWN, VERMONT  
PROPERTY TAXES RECEIVABLE  
JUNE 30, 20xx

	<u>Taxes</u>	<u>Interest</u>	<u>Total</u>
<b>Balance, beginning of month</b>	\$ 487,125.66	\$ 29,874.24	\$ 516,999.90
<b>Current month activity</b>			
Tax adjustments	(1,478.25)		(1,478.25)
Interest added		4,258.11	4,258.11
Interest abated		(89.25)	(89.25)
Collections	<u>(287,144.25)</u>	<u>(14,877.11)</u>	<u>(302,021.36)</u>
<b>Balance, end of month</b>	<u>\$ 198,503.16</u>	<u>\$ 19,165.99</u>	<u>\$ 217,669.15</u>



# Delinquent Tax Reconciliation

**ANYTOWN, VERMONT  
DELINQUENT TAX RECONCILIATION  
FOR THE YEAR ENDED JUNE 30, 20xx**

	<u>Taxes</u>	<u>Interest</u>	<u>Penalty</u>	<u>Fees</u>	<u>Total</u>
<b>Balance, July 1</b>	\$ 75,877.25	\$ 7,255.77	\$ 4,874.22	\$ 100.00	\$ 88,107.24
<b>Activity</b>					
Delinquent taxes from collector	198,503.16	19,165.99			217,669.15
Delinquent penalties & interest added		1,985.03	15,880.25		17,865.28
Interest and fees added		11,256.55		750.00	12,006.55
Abatements	(4,788.22)	(47.88)	(383.06)		(5,219.16)
Collections	<u>(196,692.70)</u>	<u>(31,175.67)</u>	<u>(15,708.25)</u>	<u>(800.00)</u>	<u>(244,376.62)</u>
<b>Balance, June 30</b>	<u>\$ 72,899.49</u>	<u>\$ 8,439.79</u>	<u>\$ 4,663.16</u>	<u>\$ 50.00</u>	<u>\$ 86,052.44</u>



# Other Accounts Receivable

- **Review schedule of other receivables and compare to supporting details**
- **Review subsequent receipts for omitted items**
- **Are grant receivables correctly reported?**



# Capital Assets

- **Review or prepare capital asset inventory**
- **Review documentation for acquisitions and disposals**
- **Review cash disbursements for unrecorded assets**



# Accounts Payable and Other Liabilities

- **Accounts payable**
  - Review listing and compare to invoices
  - Search subsequent expenditures for unrecorded payables
  - Search for retainage amounts on long-term contracts
- **Payroll liabilities**
  - Trace liabilities to tax returns
  - Review subsequent expenditures for payment
  - Co-ordinate with payroll review
- **Long-term debt**
  - Review or prepare debt activity schedule
  - Trace proceeds of new debt issued to receipts journal
  - Review documentation of principal and interest payments



# Tax Revenues

- **Reconciliation of grand list**
  - **Authorization of changes to grand list**
  - **Review of permits and land transfer records**
- **Changes to grand list and taxes due**
  - **Lister changes**
  - **BCA changes**
  - **State changes**



# Tax Revenues

- Trace values to Form 411
- Trace tax rate to select board minutes
- Recalculate tax amounts billed
- Verify abatements
- Trace payments to cash receipts journal
- Trace delinquent amount to delinquent taxes receivable
- Verify payments to school district



# Reconciliation Chart

ANYTOWN, VERMONT  
TAX RECONCILIATION  
JUNE 30, 20XX

	<u>Municipal</u>	<u>Homestead Education</u>	<u>Non-resident Education</u>	<u>Local Agreement</u>	<u>Total</u>
<b>Taxes to account for</b>					
Grand List	\$ 8,757,279.55	\$ 4,373,507.57	\$ 3,584,268.38	\$ 8,757,279.55	
Tax rate	<u>0.3281</u>	<u>1.1361</u>	<u>1.3125</u>	<u>0.0049</u>	
Taxes as calculated	2,873,263.42	4,968,741.95	4,704,352.25	42,910.67	12,589,268.29
Rounding Adjustment	<u>(47.59)</u>	<u>0.28</u>	<u>1.50</u>	<u>0.30</u>	<u>(45.51)</u>
Taxes billed	<u>\$ 2,873,215.83</u>	<u>\$ 4,968,742.23</u>	<u>\$ 4,704,353.75</u>	<u>\$ 42,910.97</u>	<u>\$ 12,589,222.78</u>
<b>Taxes accounted for</b>					
Taxes collected	\$ 12,258,144.25				
Tax adjustments					
Grand list corrections	4,785.22				
Abatements	(2,577.22)				
Small balance adjustments	(24.55)				
Overpayment to prepaid	4,788.25				
To delinquent collector	<u>324,106.83</u>				
Total accounted for	<u>\$ 12,589,222.78</u>				
<b>Variance</b>	<u>\$ (0.00)</u>				



# General Revenues

- **Town Clerk fees – recalculate revenues based on activities**
- **State payment report – trace payment amounts to cash receipts journal**
  - [http://finance.Vermont.gov/town\\_reports](http://finance.Vermont.gov/town_reports)
- **Compare actual revenues to budgeted and prior year amounts for variances**



# General Disbursements

- **Compare actual expenditures to budgeted and prior year amounts for variances**
- **Trace sample of expenditures to supporting documentation and verify information**
- **Examine large expenditures**



# Payroll Disbursements

- Review or prepare payroll summary by quarter
- Trace amounts to tax returns
- Reconcile totals to general ledger
- Trace sample payroll
  - Verify hours and rates of pay
  - Recalculate amounts
  - Trace amounts to warrant and general ledger



# Payroll Reconciliation

ANYTOWN, VERMONT  
PAYROLL RECONCILIATION  
FOR THE YEAR ENDED JUNE 30, 20XX

	<u>September</u>	<u>December</u>	<u>March</u>	<u>June</u>	<u>Total</u>
<b>FIT wages</b>					
Gross payroll	\$ 250,203.34	\$ 198,043.63	\$ 157,466.38	\$ 139,920.53	\$ 745,633.88
Adjustments to taxable wages					
Flexible spending account	(1,710.21)	(1,541.22)	(1,455.87)	(1,784.22)	(6,491.52)
Retirement contributions	<u>(13,920.42)</u>	<u>(11,352.80)</u>	<u>(12,386.48)</u>	<u>(11,434.87)</u>	<u>(49,094.57)</u>
FIT Taxable	<u>\$ 234,572.71</u>	<u>\$ 185,149.61</u>	<u>\$ 143,624.03</u>	<u>\$ 126,701.44</u>	<u>\$ 690,047.79</u>
<b>FICA/Medicare wages</b>					
Gross payroll	\$ 250,203.34	\$ 198,043.63	\$ 157,466.38	\$ 139,920.53	\$ 745,633.88
Adjustments to FICA/Medicare wages					
Flexible spending account	<u>(1,710.21)</u>	<u>(1,541.22)</u>	<u>(1,455.87)</u>	<u>(1,784.22)</u>	<u>(6,491.52)</u>
FICA/Medicare taxable	<u>\$ 248,493.13</u>	<u>\$ 196,502.41</u>	<u>\$ 156,010.51</u>	<u>\$ 138,136.31</u>	<u>\$ 739,142.36</u>
<b>Gross payroll reconciliation</b>					
Administration					\$ 258,576.17
Public safety					24,744.25
Public works					417,455.22
Recreation					9,877.25
Planning and development					29,744.25
Library					<u>5,236.74</u>
Total payroll					<u>\$ 745,633.88</u>



# Financial Statements

- **Verify that all required statements are presented**
- **Complete an analytical review**
  - **Compare revenues and expenditures to budget and prior year amounts**
  - **Obtain explanations for significant variances**
  - **Analyze accounts with unusual balances**

