

COMMON ISSUES NOTED DURING CPA WORKPAPER REVIEWS

Office of the Utah State Auditor
2015 CPA Training



COMMON DEFICIENCIES

- Inadequate Risk Assessments
- Inadequate Understanding/Documentation of Controls
- Threats/Safeguards for auditor independence not documented
- Failure to consider/address direct and material compliance requirements related to the Financial Statements.
- Inadequate documentation for analytical procedures used exclusively as a substantive test



RISK ASSESSMENTS (AU-C 315)

- ~~Inefficient and futile exercise of preparing form after checklist to only then do the same procedures as last year.~~
- **Identify** significant risks and **tailor the audit plan** to respond to those risks.



RISK ASSESSMENT PROCEDURES #1

- **Understanding the entity and its environment**
 - Inquiry with management
 - Review of meeting minutes
 - Analytical Procedures
 - Observation and Inspection
- Remember the end goal – **Identify & modify**
 - Where are the higher risks that the client will not get the accounting right?
 - Where/how does the standardized audit plan need to be tailored?



RISK ASSESSMENT PROCEDURES #2

- **Gain an Understanding of Internal Controls**
 - Looking for control weaknesses that could lead to material misstatements AND that might not be sufficiently covered by the standardized audit plan.
 - **More than just inquiry!**



RISK ASSESSMENT PROCEDURES #3

- **Summarization of the Risks**
 - **Document** the linkage between the significant risks identified and the audit procedures designed to address those risks.



UNDERSTANDING/DOCUMENTATION OF CONTROLS

- Evaluate the **design** and **implementation** of controls
- Controls over significant transaction classes
- Controls, NOT processes
- KEY Controls
- More than just inquiry
- Don't forget about Separation of Duties!



INDEPENDENCE

DOCUMENTATION (GAGAS 3.59)

What is Required Documentation?

1. Threats to independence
2. Safeguards applied
3. Consideration of the management's ability to oversee the preparation of the f/s (SKE of management)



INDEPENDENCE

Common problems:

- Nonaudit service performed (preparation of f/s) but not documented.
- Nonaudit service performed and documented, but no safeguards documented.
- Nonaudit service performed, no documentation of an designated individual from the entity to oversee the service.
- No documentation/evaluation of the skills, knowledge or experience of the entity's designated individual.
- Auditor journal entries proposed/booked, but not documented as reviewed and approved by the entity.



THREATS TO AUDITOR INDEPENDENCE – EXAMPLE 1

- Example 1: Preparing f/s from entity's trial balance, proposing mostly just standard adjusting and closing entries (records are complete).
- Threat? - Preparing f/s
- Is this treat significant? - No
- Additional safeguards required? – No
- Documentation required? – YES!



THREATS TO AUDITOR INDEPENDENCE – EXAMPLE 2

- Example 2: Entity's records are incomplete and a significant number of correcting entries are expected to be proposed.
- Threat? - Preparing f/s
- Is this threat significant? - Yes
- Additional safeguards required? – Yes!
- Documentation required? – Yes!



DIRECT AND MATERIAL COMPLIANCE REQUIREMENTS RELATED TO THE FINANCIAL STATEMENTS

- **Common problem:** Use of the OSA's State Compliance Audit Guide addresses all possible direct/material compliance requirements.
- Does not address:
 - Bond covenant requirements
 - Money Management Act (Investments)
 - Other entity specific restrictions or statutes

ANALYTICAL PROCEDURES USED EXCLUSIVELY AS A SUBSTANTIVE TEST

Comparison of recorded values with **expectations developed by the auditor.**

- Develop an Expectation
 - **Factors considered in its development**
- Define a scope
- Document the result of the comparison
- Additional audit procedures if results are inconsistent/outside of scope

COMMON EXAMPLE OF SUBSTANTIVE ANALYTICAL PROCEDURES

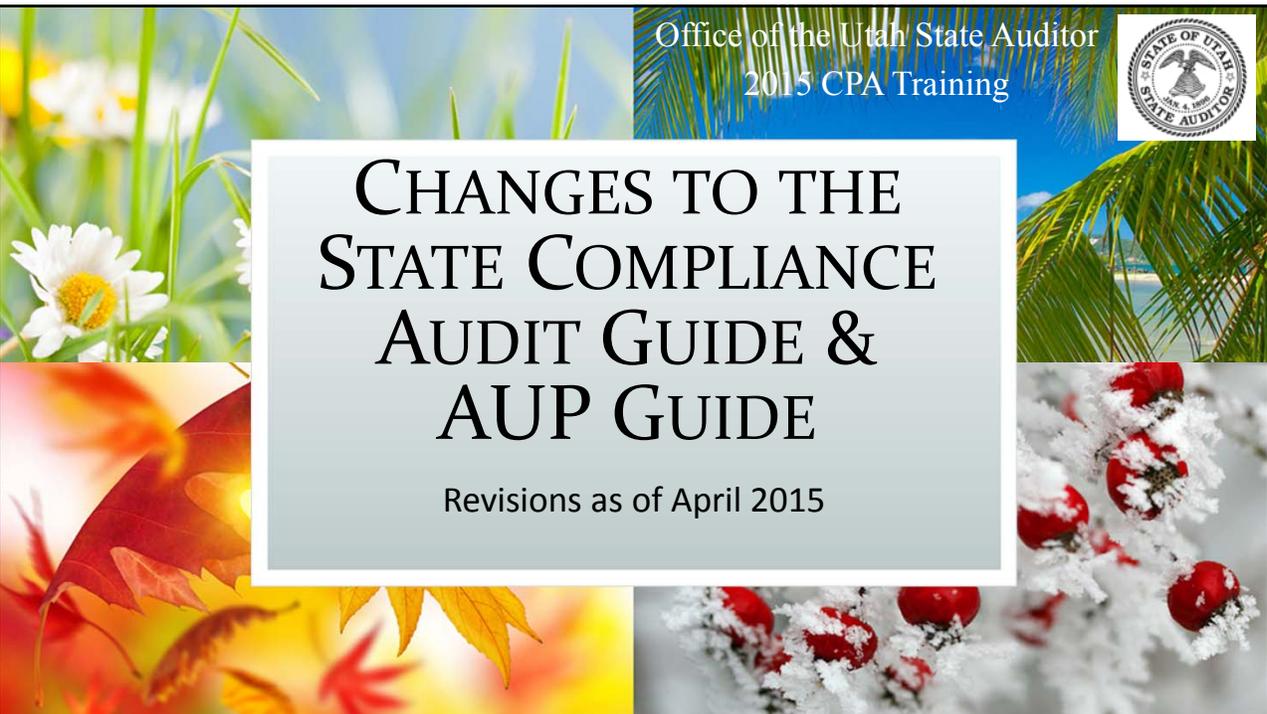
	2014	2015	\$ Diff	% Diff
Charges for Services	1,100,000	1,110,050	10,050	0.9%
Fines	125,000	165,000	40,000	32.0%
Interest	1,225	1,225	-	0.0%
Other Revenues	85,200	45,000	(40,200)	-47.2%

All changes are reasonable.



COMMON EXAMPLE – WHAT’S MISSING?

- Factors considered in the development of the expectation
- Scope
- Additional procedures necessary?
- Is there a better analytical procedure for this revenue?



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CHANGES TO THE STATE COMPLIANCE AUDIT GUIDE & AUP GUIDE

Revisions as of April 2015



State Compliance Guide

WHAT'S NEW



COMPLIANCE PLANNING PROCEDURES

Compliance Planning Procedures section added to assist the auditor in complying with AU-C 935.

- Documentation of Internal Controls over compliance requirements.
- Inquires of management regarding other findings/recommendations relating to the compliance requirements.
- Identification of fraud and other risk factors.
- Documentation of a materiality level for each compliance requirement.
- Documentation of the assessed risk assessment for each compliance requirement.

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COMPLIANCE RISK ASSESSMENT FORM

Workpaper Template Creator June 30, 2015		1	2	Describe Control(s) (or refer to other permanent file documentation), including person or department performing the control and how the control is	3		4
State Guide	Year Last Audited	Selected or Required? Y, N, or N/A	Materiality Levels		Risks of Material Noncompliance		Risk Assessment
Applicable Compliance Requirements					Identified Risks	S = Significant F = Fraud	H, M, L
Chapter 1: General Audit Procedures to be Performed Annually							
1 B	Budgetary Compliance		5% of budgeted fund expenditures				
1 C.	Fund Balance		Not significantly over budget				
1 D.	Justice Courts		[complete]				
1 E.	Utah Retirement Systems		[complete]				
1 F.	Enterprise Fund Transfers, Reimbursements, Loans, and Services		[complete]				
1 G.	Restricted Taxes		5% of restricted tax type				
1 H.	Transient Room Tax and Tourism Taxes		5% of tax, within limitations				
1 I.	Locally Generated Taxes		0.5% to 2% of property tax revenue				
APP 1-1	Disposition of Justice Court Fines, Fees, and Forfeitures		5% of total fines, fees, and forfeitures				

DEFICIT FUND BALANCES

OLD – Determine if any deficit balances existed at year-end.

NEW – If deficit fund balance exists, determine whether the entity is properly retiring the deficit:

- In subsequent year's budget, must appropriate revenues to retire the deficit.
- All but LEA's: Appropriation amount must be at least 5% of the fund's total revenue for the year under audit (or the amount of the deficit, if less).
- LEA's: Appropriation amount be at least 10% of the entity's tax revenue for the year under audit (or the amount of the deficit, if less).



RESTRICTED TAXES

- Determine the type and amount of restricted taxes received.
- If total of all restricted taxes is significant in relation to total revenues, perform additional procedures:
 - 'Significant' to be determined by auditor
 - Restricted taxes accounted for in separate accounts.
 - Test a sample of expenditures made from restricted tax revenue.



OPEN AND PUBLIC MEETING ACT

- Moved back to Chapter 1 to be tested each year.
- Additional selection of two 'work meetings' where a quorum is present.
- Additional procedures for meetings selected for testwork:
 - Agenda posted to the Utah Public Notice Website at least 24 hours before meeting.
 - Agenda reasonably specific to enable lay persons to understand the topics to be discussed.
 - Closed meetings:
 - Roll call was taken and documented
 - An audio recording was made or sworn statement executed for exemption
- Report non-compliance directly to OSA at stateauditor@utah.gov



OTHER CHANGES

- Charter schools to provide quarterly reports
- Ensure entity submitted Impact Fee report to OSA
- SESA (state awards) testwork now applicable to LEAs
- State program thresholds increased to \$750,000 for type A and to \$350,000 for type B.



WHAT'S OUT

State Compliance Guide



DELETED SECTIONS OF THE GUIDE

- Interlocal Agreement Entities
- Assessing and Collecting Property Taxes
- Utah Public Finance Website (Transparency.Utah.gov)
- Uniform Chart of Accounts for Local Education Agencies
- Charter School Revolving Account



CHANGES TO THE Agreed-Upon Procedures Guide



CHANGES TO THE AUP

- Modified wording eliminating subjective procedures such as the use of 'appropriate,' 'reasonable,' and 'proper.'
- Deleted step to review the design/implementation of internal controls.
- Added steps relating to the Open & Public Meeting Act (see SCAG).
- Added steps relating to retiring deficit fund balances (see SCAG).



CHANGES TO THE AUP (CONTINUED)

- Added step to select one month of purchasing card statements and determine if the statement was reconciled by someone other than the card holder.
- Added step to determine if a separate individual performs bank reconciliation or if not, a separate individual reviews the reconciliation.



CONTACT INFORMATION

Patricia R. Nelson, CPA
Audit Supervisor
801-538-1334
patricianelson@Utah.gov