



# **Getting Ready for an Audit**

West Virginia State Auditor's  
Office

Chief Inspector Division

# Objective

- The primary objective of an audit is to express an opinion as to whether your financial statements are fairly presented in conformity with generally accepted accounting principles.

# Objective

- The audit will be planned and performed in order to obtain reasonable other than absolute assurance about whether your financial statements are free of material misstatements, whether caused by error or fraud.

# Objective

- An audit is not designed to detect errors, fraud or other illegal acts that are immaterial to the financial statements.

# Audit Opinions

- Unmodified
  - Qualified “except for”
  - Disclaimer “do not express an opinion”
  - Adverse “do not purport to”
- 
- Best opinion is the Unmodified opinion

# Audit Procedure

- The auditor will examine, on a test basis, evidence supporting the amounts and disclosures in your financial statements.

# Audit Procedure

- Sampling of invoices
- Sampling of revenue sources
- Sampling of billings
- Review of official minutes

# Audit Procedure

- The auditor will test documentary evidence supporting the transactions recorded in your accounts such as the physical existence of inventories and capital assets.



# Audit Procedure

- The auditor will obtain direct confirmations of receivables and certain other assets and liabilities through correspondence with selected individuals, creditors, and financial institutions.

# Audit Procedure

- Confirmations to third parties –sheriff  
yearly settlement statements; bank  
accounts; collateralization; bond  
issuances; lease purchases

# Audit Procedure

- As part of the engagement, the auditor will request written representation from your attorneys.

# Audit Procedure

- As part of the engagement, the auditor will gain an understanding of your control environment.

# Audit Procedure

- The auditor will also assess control risk and may test internal controls to determine their effectiveness as well as testing compliance with applicable state regulations.

# Internal Controls

- The auditor will test the effectiveness of your internal controls over safeguarding of assets.

# Internal Controls

- Integrated set of policies and procedures designed to assist management to achieve its goals and objectives. (GFOA – GAAFR)

# Internal Controls – Cash

- Access to cash should be limited to certain employees
- Kept in a safe, if not deposited
- Daily deposits reconciled
- Employees bonded
- Monthly reconciliations of bank statements



# Internal Controls - Disbursements

- Use of purchase orders
- Prior approval from Board for major disbursements
- Two signatures on checks
- Invoices marked paid with date and check number
- Support documentation for all expenditures including petty cash

# Internal Controls - Investments

- Adopt written policies in addition to state code regulations
- Monitoring of investment portfolios

# Internal Controls – Capital Assets

- Adopt written capitalization policy
- Restricted access to tools and capital assets
- Inventory tags on all capitalized assets
- Periodic checks on assets
- Procurement of bids on construction projects

# Internal Controls – Capital Assets

- Reasonable assigned life expectancy
- Depreciation consistency applied
- Recorded at historical cost
- Maintain capital asset schedule

# Internal Controls - Debt

- Written documentation of approval
- Maintain signed copies of bond issuances
- Repayment procedures
- Maintain amortization schedules

# Internal Controls - Payroll

- Certified time cards or time sheets by employee
- Approval of supervisor
- Prior approval of overtime
- Documentation of why overtime occurred
- Timely remittances

# Internal Controls – Decentralized Areas

- Controls may sometimes breakdown in these areas

# Internal Controls – Financial Reporting

- Financial statement preparation
- Documentation of general journal entries
- Documentation of adjusting entries



# Internal Controls – Computers

- Restricted access
- Password protected – do not share passwords
- Backups contained off-site
- Certified vendors
- Adequate computer software

# Internal Controls – Segregation of Duties

- No one employee processes all aspects of a transaction
- Without it – elements do not reduce to relatively low level the risk that errors and irregularities, in amounts that would be material in relation to the financial statements, may occur and not be detected in a timely manner

# Internal Controls – Segregation of Duties

- Ideal World – segregation of duties occurs at all levels
- Economically feasible

# Grant Auditing Procedures

- Obtain the grant agreement to determine the compliance requirements associated with the particular grant
- Obtain an understanding of the internal controls in place for the grant

# Grant Auditing Procedures

- The auditor will examine the support documentation for the expenditures of the grant
- The auditor will look for certified and notarized payroll and invoices from vendors
- The auditor will determine if the expenditures are allowable

# Grant Auditing Procedures

- If federal funding, the auditor will determine if the draw downs were made timely
- If federal funding, the auditor will determine if the checks were generated within 3 days of the draw down

# Grant Auditing Procedures

- If federal funding, examine the certified payroll for wages
- If federal funding, review documentation that interviews were conducted in accordance with Davis-Bacon

# Grant Auditing Procedures

- The auditor will examine the administrative costs applied to the grant is within the allowance
- Prior approval from the Board was obtained prior to the payment
- Prior approval from the Board for change orders on the project



# Grant Auditing Procedures

- Two signatures on checks
- Invoices marked paid with date and check number

# Grant Auditing Procedures

- Determine if the proper bid procedures were followed for construction grants – 1<sup>st</sup> year of grant only
- Determine if the proper inspections were completed for construction grants – end of grant

# Grant Auditing Procedures

- The auditor will determine if the expenditures correspond to third party records

# Audit Preparation

- Fiscal year under examination
- Documentation associated with that fiscal year
- Board minutes
- Significant changes in management
- Significant increases in assets/debt
- Notify personnel of audit

# Audit Preparation

- Review previous audit report
- Update on previous findings – if any
- Determine any new potential issues
- Understand which new GASB pronouncements should be implemented
- Open dialog with the auditor

# Audit Preparation

- Help the auditor determine what time would be best for specific testing – payroll
- Discuss any issues with the auditor
  - Specific areas of concern

# Conclusion

- Questions
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