

# Proposition 39 Financial & Performance Audit

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# Audit Objectives – Financial

A financial statement audit is the examination of an entity's financial statements and accompanying disclosures by an independent auditor. The result of this examination is a report by the auditor, attesting to the fairness of presentation of the financial statements and related disclosures. The auditor's report must accompany the financial statements when they are issued to the intended recipients.

# Audit Objectives – Financial

- Financial audit intended to provide a 'reasonable' assurance over accuracy of financial statements.
- Therefore does not provide absolute assurance that the financial statements are free from all misstatements.
- The purpose of audit is confined to provide reasonable assurance in order to avoid excessive time and cost in the performance of the audit that may outweigh any benefit that may be derived from the enhanced assurance.
- Absolute assurance is also impossible to guarantee in most cases due to the inherent limitations of audit.

# Audit Objectives – Performance

- Provide management with an independent and objective evaluation of government operations
- Assist management to meet the increased public demand for information disclosure
- Evaluate evidence against stated criteria
- Consider applicable standards

# Audit Objectives – Performance

Compliance audits determine whether laws, regulations, etc. are met related to:

- Purpose of the program
- Manner in which it's conducted
- Outcomes
- Costs incurred and revenues received

# Primary Stages – Planning & Risk Assessment

- Gaining an understanding of the Bond Program and the environment in which it operates, and using this information to assess whether there may be risks that could impact the financial statements
- We also use materiality

# Planning Materiality – (Example)

	Building Fund	
Base Amount Revenue	\$	422,019
Base Amount Assets		110,886,015
Greater of Assets/Rev		110,886,015
Amount from PPC**		153,000
Percent**		0.52%
Percent X Base		576,607
Planning Materiality	\$	729,607
Performance Materiality	\$	547,205
Individually Significant Items (ISI)	\$	182,402

PPC Guidelines		
0-100,000	-	4.00%
100,000-500,000	2,000	2.00%
500,000-1million	7,000	1.00%
1 million- 5 million	8,000	0.90%
5 million - 10 million	13,000	0.80%
10 million -50 million	23,000	0.70%
50 million - 100 million	73,000	0.60%
100 million - 500 million	153,000	0.52%
500 million +	503,000	0.45%

# Primary Stages – Internal Control Testing

- Assessment of the effectiveness the bonds suite of controls
- Concentrating on such areas as proper authorization, the safeguarding of assets, and the segregation of duties
- Can involve an array of tests conducted on a sampling of transactions to determine the degree of control effectiveness
- Review the adequacy and accuracy of the accounting systems used to track budgets and financial reports
- A high level of effectiveness allows us to scale back some of their later audit procedures
- If controls are ineffective (i.e., there is a high risk of material misstatement), then we must use other procedures to examine the financial statements.
- We assess and test controls over Payroll, Cash Disbursements, Journal Entries and Closing procedures.



# Substantive Procedures

- *Analysis* - Conduct a ratio comparison with historical, forecasted (budgets), and industry results to spot anomalies
- *Cash* - Review bank reconciliation with county treasury
- *Accounts receivable* - Confirm account balances, investigate subsequent collections, mainly relates to interest earned on cash in county treasury

# Substantive Procedures, continued

- *Accounts payable* - Confirm accounts, test year-end cutoff
- *Revenue* - Examine escrow statements and official statements to determine recorded correctly
- *Expenses* - Examine documents supporting a selection of expenses and interfund transfers, review subsequent transactions, this is the largest part of the audit