

WHAT TO EXPECT DURING A CPA AUDIT

Planning Phase:

- I. Auditors will ask you to sign an engagement letter summarizing terms and conditions of audit, including:
 - a. Method of accounting - Accrual versus cash basis
 - b. Generally accepted auditing standards
 - c. Government auditing standards
 - d. Fees and payment terms

- II. Preliminary planning meeting with Fire District (FD) management/financial personnel
 - a. Gather historical documents
 - i. Charter, By-Laws, etc.
 - b. Gather information regarding internal controls
 - i. Cash receipts
 - ii. Cash disbursements
 - iii. Payroll
 - iv. Property and equipment acquisition
 - v. Other
 - c. Communication with FD Board and/or Finance Committee
 - d. Discussion about fraud risk and fraud risk assessment
 - e. Discuss/negotiate the level of assistance from FD to auditors
 - i. If you provide assistance, this will keep your audit fees lower
 - f. Establish timetable for completing the work
 - i. Planning
 - ii. Fieldwork
 - iii. Financial statement completion

- III. Auditor will ask you to sign confirmations
 - a. Bank accounts
 - b. Investments
 - c. Significant amounts receivable
 - d. Revenue contract with Town
 - e. Legal representation letter to your attorney
 - f. Other

Fieldwork Phase

- I. Auditors will typically spend several days on-site at FD
 - a. Will need physical space to work
 - b. Will need access to records
 - c. Will need access to FD personnel who can answer their questions

WHAT TO EXPECT DURING A CPA AUDIT **(cont.)**

- II. Auditors will want to review:
 - a. Board minutes
 - b. Finance reports issued by you during the year
 - c. Copy of your annual budget
 - d. General ledger
 - e. Journal entries
 - f. Bank statements and cancelled checks
 - g. Original invoices for assets and expenses
 - h. Payroll records
 - i. Contracts
 - j. Major leases
 - k. Bank loans and mortgages

- III. Auditors should want to physically inspect certain assets
 - a. Major equipment (new and older items)
 - b. Building
 - c. Major construction projects
 - d. Possibly look at major inventories/supplies

- IV. Auditors will usually ask many questions
 - a. Explanations for key transactions
 - b. More backup to support transactions
 - c. Reasons for fluctuations between your budgeted and actual results

Financial Statements, Reports and Wrap-up Phase

- I. Auditors will provide you with proposed changes (adjusting entries) to your records
 - a. You need to agree or disagree
 - b. Possible to "pass" on minor proposed adjustments
 - c. Auditors will ask you to sign a "Management Representation Letter" at end of audit to codify various questions and answers provided during the audit
 - i. Usually signed by key member of management and at least one Board member

- II. Auditors will provide draft financial statements for your review and approval

WHAT TO EXPECT DURING A CPA AUDIT **(cont.)**

- III. Auditors should provide other written reports
 - a. Letter on reportable conditions (internal controls) and/or management letter suggestions
 - i. Major internal control weaknesses, if any, will be identified with recommendations for improvements
 - ii. Other comments may cover minor internal control weaknesses or efficiency tips
 - b. Communication letter to Finance Committee or Board
 - i. Summarizes the results of the audit, including:
 - 1. Accounting policies
 - 2. Accounting estimates
 - 3. Audit adjustments recorded
 - 4. Describe any difficulties dealing with management
 - 5. Other
- IV. Auditors should be invited to present their reports to Board or Finance Committee
 - a. Board or Finance Committee members should ask questions
- V. Good communication between auditors, Board and FD personnel will increase the chances of a smooth and effective annual audit