



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

Comprehending the Audit Process Part II

State of Maine – Office of the Controller
September 17, 2025



Phase III – Primary Fieldwork Testing and Analysis



Terms of Engagement



Provide reasonable assurance on whether the financial statements are presented in accordance with GAAP

In accordance with
Government Auditing
Standards



Provide a report on internal control over financial reporting and compliance with laws, regulations, contracts and grants



Provide a management letter based on the audit work performed

Remember – Assertions!



Substantive Procedures



Assertions

Management, in preparing the financial statements, has made the following assertions amongst the account balances, transactions and disclosures reported:

Existence and
Occurrence

Completeness

Accuracy and
Classification

Rights and
Obligations

Valuation and
Allocation

Presentation and
Disclosure

Cutoff



Reasonable Assurance

High, but not
absolute assurance
that the financial
statements are not
materially misstated

Obtained when
auditor has obtained
sufficient,
appropriate audit
evidence to reduce
the risk of an
incorrect opinion to
an acceptably low
level

Persuasive rather
than *conclusive*



Documentation



- Misconception that audit testing performed primarily with Controller's or Accountant's office
- Intent is to test transactions recorded in general ledger are ***supported***; therefore, many transactions are audited within Treasurer's office or Department-level

Cash and Cash Equivalents



Existence/Cutoff – Trace the reconciled book balance of cash to the general ledger, and trace the reconciled bank balance to the bank statement and test significant reconciling items



Existence/Cutoff – Obtain independent evidence for selected bank accounts including confirmation and other means and reconcile any differences of confirmation replies



Disclosures – Check that the workpapers include necessary information to support disclosures and discuss deposit risk disclosures with responsible officials and assess GAAP conformity

Long-Term Debt



Completeness – Confirm debt balances and terms as of the financial statement date



Disclosures – Check that the workpapers include necessary information to support disclosures and discuss disclosures with responsible officials and assess GAAP conformity

Accounts Receivable

Existence/accuracy

- Assess the valuation of nonexchange receivables recorded in the general ledger by confirming with grantors or by vouching to subsequent receipts

Cutoff

- Consider the period of availability and related eligibility requirements to assess the recognition of revenue in the proper period



Accounts Receivable - Nonexchange

- Remember – GASB Statement No. 33 – *Accounting for Nonexchange Transactions* – eligibility requirements

Recipient
Characteristics

Cost-
Reimbursement

Contingency

Time





Phase IV – Reporting, Concluding and Audit Deliverables



Post Audit Visit



Provide any outstanding items in a timely manner



Follow-up to make sure nothing is still needed or if there are open questions



A management exit meeting with external auditor may be beneficial in advance of an exit conference with the governing board

Reporting and Concluding



Financial statement review, tie out, and final analytics



Review calculation for net investment in capital assets



Review prior year GFOA comments



Conclude on findings



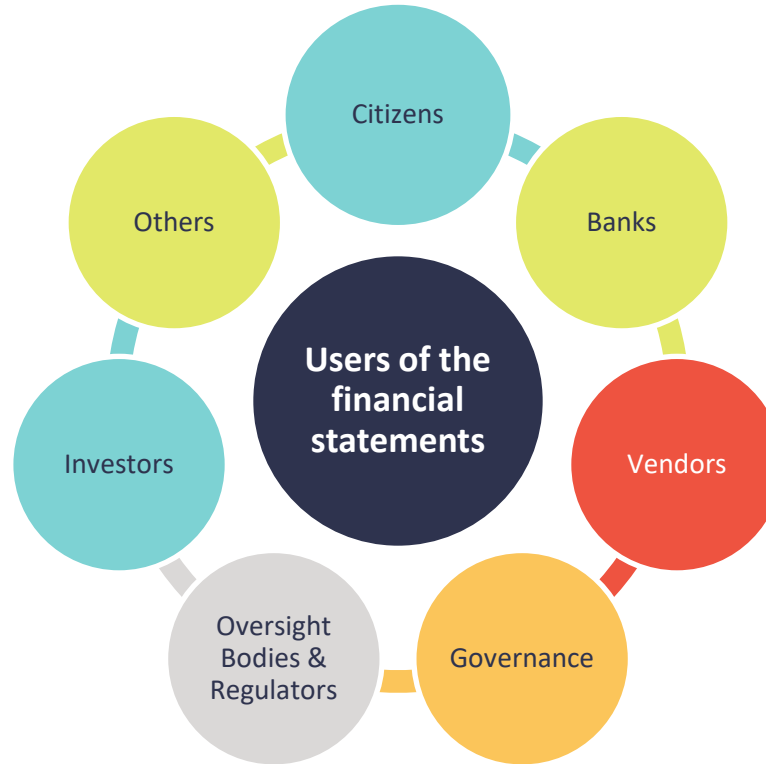
Issue reports:

- Independent auditor's report
- Report on internal controls
- Management letter



Meet with governance

Users of the Financial Statements



A man with short dark hair and glasses, wearing a dark suit and white shirt, is seated in a light-colored office chair. He is looking down at a tablet computer he is holding with both hands. The background shows a modern office environment with a white desk, a computer monitor, a keyboard, and a bookshelf filled with binders and books. A window with a plant is visible on the left.

REMEMBER...

The Financial Statements are the
Responsibility of Management



Audit Opinion

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



Auditor Responsibilities

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.



Internal Control Reporting

Government Auditing Standards requires auditors to report on the following:

1. Internal control over financial reporting
2. Compliance with laws, regulations, contracts, and grant agreements which could have a material impact on the financial statements

Auditors do not opine on the effectiveness of internal control.

Internal Control Reporting

Concerning to appear in an audit report



Material Weakness – a deficiency in internal control to an extent where there is a *reasonable possibility that a material financial statement misstatement* will not be prevented, detected and corrected on a timely basis.

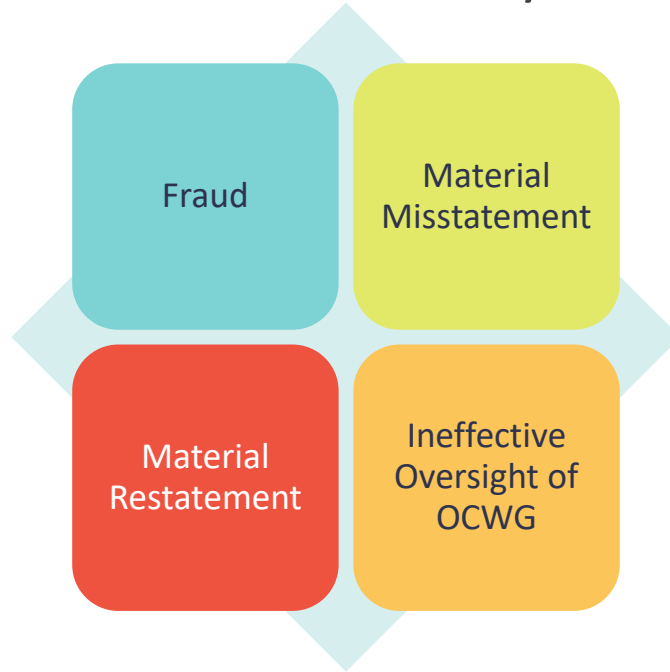


Significant Deficiency – a deficiency in internal control that is less severe than a material weakness, yet important enough to *warrant attention of those charged with governance*.

CONTINUED

Internal Control Reporting

Material Weakness indicators – industry standard



Internal Control Reporting

- Consequences of reporting significant deficiencies and material weaknesses:
 - Required federal award audit coverage (if over \$750,000) increases from 20% to 40% of federal expenditures
 - Attention of cognizant, oversight, or awarding agency to review findings and issue management decisions
 - Potential for post audit follow-up

Remember, audit adjustment findings are preferable to audit opinion modification

Internal Control Reporting

What about
the
management
letter?

- The management letter is used when the auditor becomes aware of control deficiencies that are not to the level of material weaknesses or significant deficiencies but are of sufficient importance to merit management's attention
- Determination is auditor's professional judgment
- Can be communicated orally or in writing



Deficiency Severity



Management Comment

Immaterial reconciling items were identified in the reconciliation of Treasurer's cash to the Accountant's general ledger; several items from prior years.



Significant Deficiency

Cash or accounts receivable reconciliations not timely performed, reviewed, or approved on a monthly basis.



Material Weakness

Bond proceeds were received during the fiscal year but not recorded on the general ledger until the subsequent fiscal year. Detected through audit and resulted in material audit adjustment.

Common Findings to Avoid



Formal
documentation
that a control is
being
performed



Timely
preparation of
reconciliations



Subsidiary
ledgers do not
agree to TB



Reviews not
performed
timely or at all



Segregation of
duties



Setting up for success

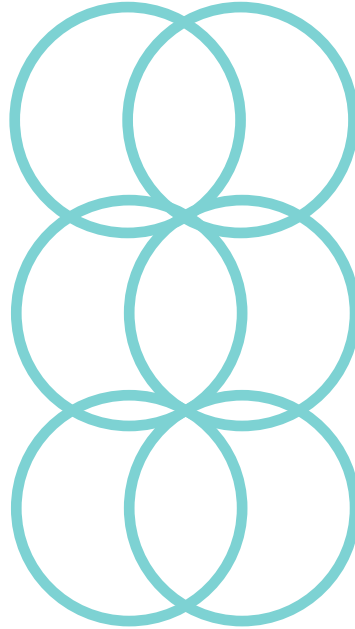
Strategies for audit preparation



How Are You Feeling?

Where most feel they are

- Stressed
- Worried
- Confused
- Tired
- Overwhelmed



Where most want to be

- Confident
- Focused
- Stable
- Engaged
- Capacity to do new things

What Are the Causes?

Federal government impact

Fiscal challenges

Technology innovations

Workforce issues

Citizen expectations

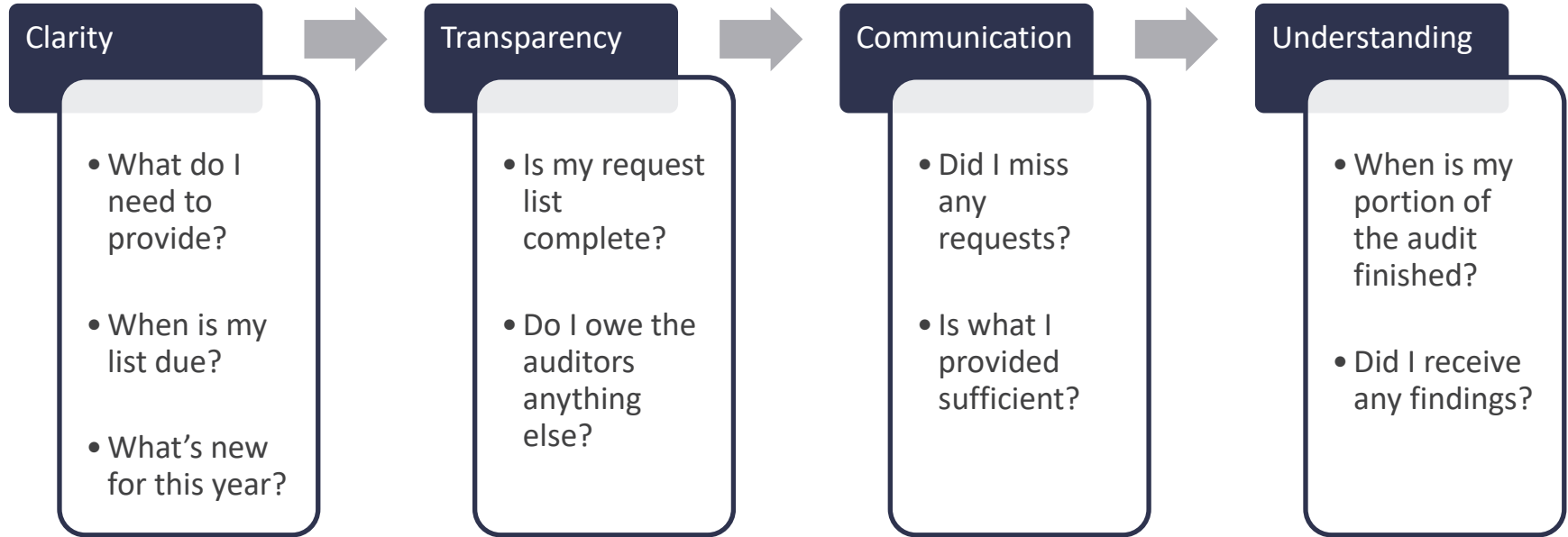
Council Members or Commissioners

COVID impacts lingering

Upcoming Audit



Audit Stressors



Audit Strategies

Entrance
Meeting

Prepared-by-
Client List

Recurring
Meetings

Streamlining

Post-Audit
Visit

Consultation



Entrance Meeting

- Establish **clarity**
 - Points of contact
 - Preferred communication
 - Use of PBC list
 - Scheduling check-in's
 - Manage expectations



Prepared-by-Client (PBC) list



Specific files needed for audit



Include due dates



Preferred formats (Excel, Word, PDF)



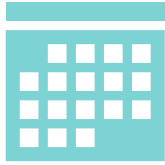
Consider “living” methods (electronic portals) versus traditional Word or Excel - **transparent**

Recurring Meetings

- Strengthen **communication** by ensuring dedicated time is set every 1-2 weeks to reconnect on how the audit is going
- Designate primary contacts to attend



Streamlining



It is okay to inform your auditor if you will not be ready by a pre-determined due date.



Work with your auditor (and accountant or finance director) to determine a date that will shorten the *turnaround* for the final audit reports.



Reconciled information is easier to audit than unreconciled information

Post Audit Visit



Provide any outstanding items in a timely manner



Follow-up to make sure nothing is still needed or if there are open questions



A management exit meeting with external auditor may be beneficial in advance of an exit conference with the governing board

Post Audit

- Work on addressing issues raised in the internal control report or management letter
- Address any problems you had in prior audit
 - Materials not gathered in a timely manner
 - Documents not set aside
 - Delays in receiving documents from others
- Leave concluding communications with **understanding** of next steps
- Start planning for next year's audit



Consultation



Always consider documented policies and procedures to establish clarity of responsibilities and for proper succession planning



Utilize the auditor as a resource

- There is typically an expectation that the audit relationship is continuous, and your contact should be accessible year-round



When in doubt, *consult*

- There is an extensive variety of resources available; consider peer group, state-published procedures manuals, and external firm support

Audit Preparation – Documents



Audit preparation should be ongoing throughout the fiscal year



Set aside or upload documents that are needed annually *when received*

Current Audit Challenges

- Lack of review of audit deliverables (financials, reconciliations, schedules, etc.)
- Last minute rush to the finish line
- Missing regulatory deadlines
 - Turnover and loss of institutional knowledge
 - Open positions
 - New faces
 - Implementation of systems
 - Remote working





New Standards



©2025 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://claglobal.com/disclaimer).
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

GASB 101 Compensated Absence Liability

Leave Types and Recognition Timing

Recognize if not used

Vacation

Sick

Holiday if
at employee
discretion

Unrestricted
Sabbatical



GASB 101 Compensated Absence Liability

Leave Types and Recognition Timing

Recognize when leave
commences

Recognize when leave
is taken

Military

Parental

Jury duty

Holiday (based
on specific
date, no
employee
discretion)

Unlimited



GASB 101 Compensated Absences – Consider:



Employment
Policies



Eligibility for future
use or payment



Historical
usage/payment
trends



Any information
contradicting
historical trends

Preparing For GASB 101

Identify
relevant
documents for
leave policies

Understand
systems/IT
Controls used
to track leave

Identify
documentation
to support
inputs (wage
rates and hours
earned)

Check to
validate
maximums
have not been
exceeded




GASB 102 Certain Risk Disclosures

Concentrations – lack of diversity of significant resources



Constraints – limitation exposed by external party or governance



Concentration or constraint is known to the government, could cause a **substantial impact**, and is likely to occur within 12 months of the financial statement date



Single Audit Reporting



When is the Single Audit due?

What is required?

- Reporting package must be submitted to the Federal Audit Clearinghouse within 9 months of the auditee's fiscal year or 30 days after receipt of auditor's report, whichever is earlier.
- Reporting package consists of the following:
 - Financial statements
 - Auditor's reports
 - Schedule of expenditure of federal awards
 - Summary schedule of findings and questioned costs (including corrective action plan)
 - Summary schedule of prior audit findings



Single Audit Findings

2 CFR 200.516 Audit Findings

The auditee will prepare the corrective action plan

- Must be on the auditee's letter head
- Identified the date the corrective action will be implemented
- Provide contact information for the employee responsible for the implementation of the plan

Types of Reported Findings

- Financial statement
- Major federal program
- Prior year findings –
 - Reported until resolved



Summary of Prior Year Findings



2 CFR 200.511 Audit follow-up



Client prepares the summary of prior year findings



Auditors are required to follow-up and corroborate the status of the prior year finding as reported by the client



Key Changes in the Draft 2025 Compliance Supplement



Background

Important!

- The AICPA has made this draft available on their website at [Draft 2025 OMB Compliance Supplement Available for Audit Planning | Resources | AICPA & CIMA](#)
- **Please review the 2025 Supplement when it is issued by the OMB to identify actual changes!**
- The DRAFT 2025 Compliance Supplement can be used for planning purposes.
- Effective date for audits of fiscal years beginning after June 30, 2024.
- Supplement anticipated to be posted on OMB's website:
<https://www.whitehouse.gov/omb/>



Part 2 Matrix

- Requirements that were changed from a Y to N or N to a Y since the last supplement are shown in bold and highlighted yellow.

10.558	Y	Y	N	Y	N	N	N	Y	N	N	Y	Y
--------	---	---	----------	---	---	---	---	---	---	---	---	---

- New programs are identified as new and deleted programs are identified as deleted.

10.646 (new)	Y	Y	N	Y	N	Y	N	Y	N	Y	N	Y
10.649 (delete)												

- Deleted programs are still subject to audit using Part 7 of the Supplement.
- Audit findings reported in the prior year that relate to removed compliance requirement must continue to be reported until cleared and must be continue to be considered in major program determinations.

Part 3 Compliance Requirements

- In April 2024 Uniform Guidance revisions were issued.
- Part 3 has been updated for the UG revisions to subparts A-E and the government-wide effective date is October 1, 2024. However, federal agencies may elect to implement the revisions at varying times as early as June 21, 2024, and as late as October 1, 2025.
- UG revisions to Subpart F of the UG are applicable for audits of non-federal entities' fiscal years beginning on or after October 1, 2024. Therefore, auditors will not apply the \$1 million audit threshold (and related type A program threshold changes) until audits of clients with September 30, 2025, and later year-ends.
- Auditors should use Parts 3.1 and 3.2 for compliance testing based on whether the 2024 UG revisions apply to the awards subject to audit.



Part 4 Compliance Requirements

- New programs added:
 - 10.646 – Summer Electronic Benefit Transfer Program for Children
 - 93.472 – Title IV-E Preventive Program
- Highlights of changes to most frequently audited major programs:
 - 21.027 – Coronavirus State and Local Fiscal Recovery Funds
 - Removed from “higher risk” program list
 - 10.555/10.553/10.559/10.556/10.582 – Child Nutrition Cluster
 - Removal of “Paid Lunch Equity” special test
 - 14.157 – Supportive Housing for the Elderly and 14.181 – Supportive Housing for Persons with Disabilities
 - New Reporting section and 3 new special tests: rent adjustments, utility allowances, vacancies
 - 84.268/84.063/84.033/84.007/84.038 – Student Financial Assistance Cluster
 - Changes related to Pell and Direct Loans



Part 8 Higher Risk Programs and Next Steps

- There are 2 higher risk programs for 2025:
 - 93.778/93.777/93.775 Medicaid Cluster
 - 15.252 – Abandoned Mine Land Reclamation
- There are 2 programs removed from higher risk list:
 - ALN 21.023 – Emergency Rental Assistance
 - ALN 21.027 – CSLFRF
- COVID-19 programs have been removed from the appendix
- Next steps
 - Hopeful for imminent issuance of 2025 Supplement
 - Changes for 2026 are uncertain given the current federal environment



A blurred background image of an audience in a conference room. In the foreground, the back of a man's head and his raised right hand are visible. Other audience members are seated in rows behind him, and a person is standing at the front of the room. A semi-transparent white box with the word 'Questions?' is overlaid on the image.

Questions?

Thank you!

Jim Piotrowski, CPA, CGFM, Principal
Jim.piotrowski@claconnect.com

Zack Fentross, CPA, Manager
Zack.fentross@claconnect.com

Shana Doiron, CPA, Director
Shana.doiron@claconnect.com



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS

©2025 CliftonLarsonAllen LLP. CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See [CLAglobal.com/disclaimer](https://claglobal.com/disclaimer).
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.