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Comprehending the Audit Process Part I

State of Maine – Office of the Controller

September 17, 2025

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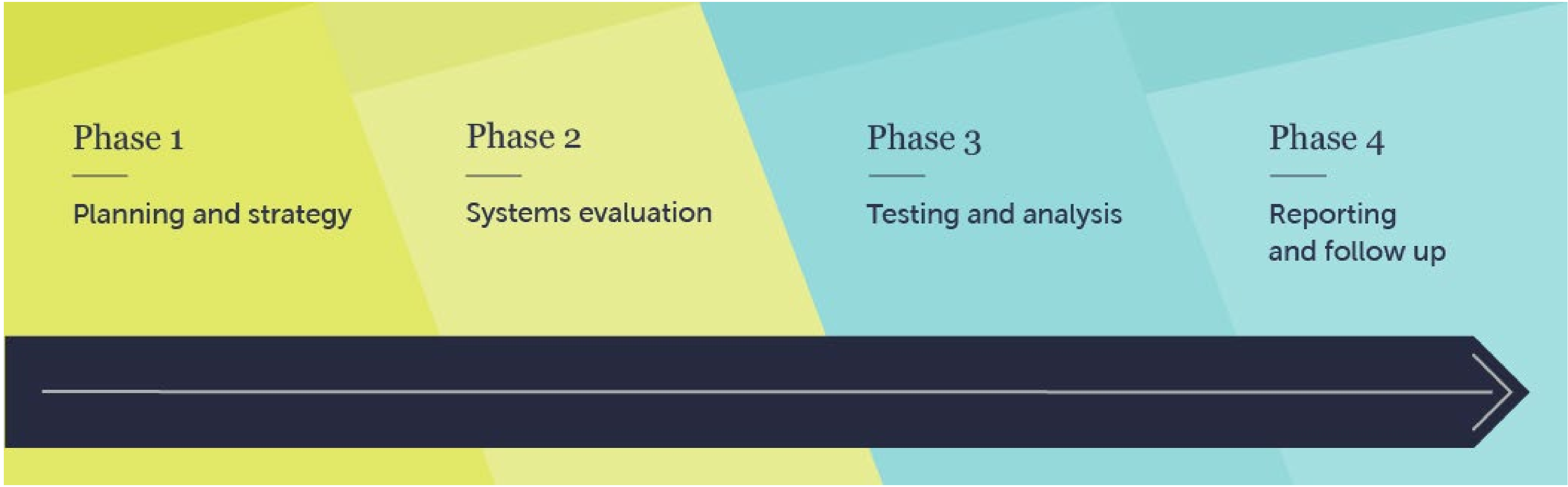
Learning Objectives

Recognize the scope of the audit engagement and the procedures to be performed

Discuss the principles of setting an audit up for success

Examine how to interpret audit results and findings

The Audit Process



Phase I – Engagement Planning and Audit Scope

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

Evolution of the Audit

Long ago

Auditors onsite

Paper, paper, and more paper

Pre-COVID

Auditors onsite

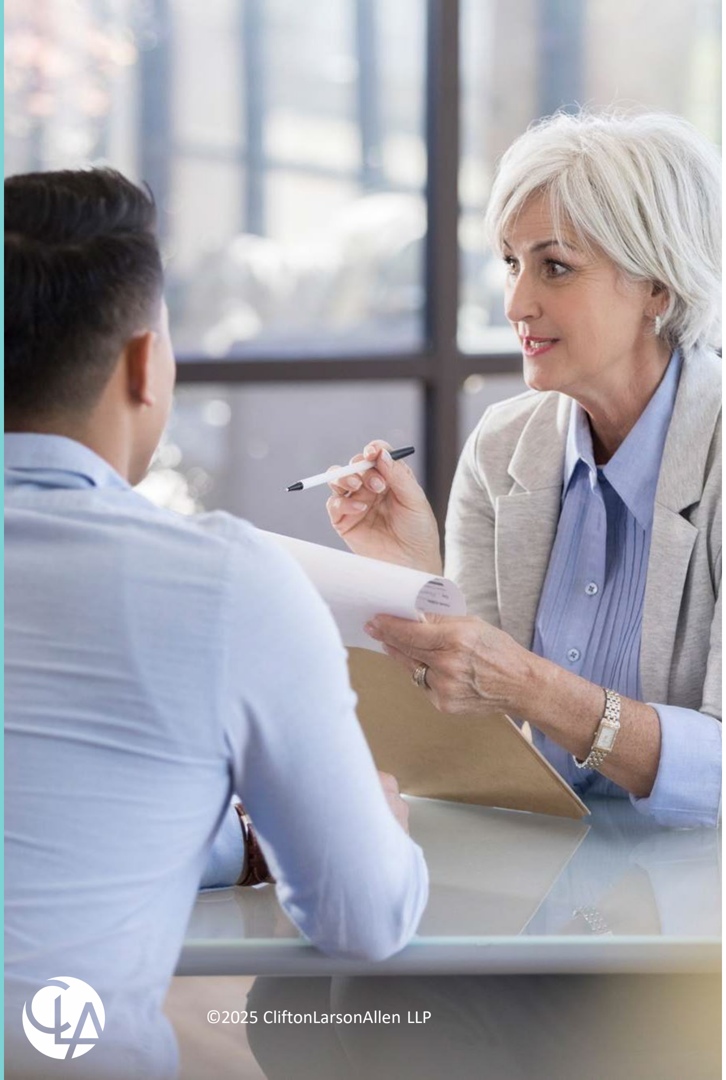
Audit firms – electronic; clients – mainly paper

Post - COVID

Auditors mostly offsite

Significant use of technology by all

Significant deadline misses



Planning: Auditor's View

Internal planning meetings are held to identify:

- Overall audit approach
- Significant processes and related audit approach
- Areas to perform preliminary fieldwork
- Fraud risks
- Reliance on others

Calculate materiality thresholds

Prepare workpaper listing for clients

Prepare Statement of Work

Planning: Client’s View

Entrance conference

- Time frames for fieldwork and deliverables
- Effects of new reporting / accounting / auditing requirements
- Effects of new initiatives / funding / regulations
- Staffing discussions
- Coordination of other offices (information technology, procurement, human resources, construction, etc.)
- Coordination of others (actuaries, third party service providers, etc.)
- Coordination of SAS 99 interviews

Planning: Key to Success

Communication and collaboration!

- Be up front with challenges
- Don't be afraid to ask for help

Entrance conferences – come prepared with the right people

Read and implement new standards *early*

Establish internal deadlines for your team

Phase II – Systems & Internal Control

Internal Controls – Defined

A process effected by management and other personnel that is designed to provide reasonable assurance that an organization will achieve the following objectives:

- **Effective, efficient operations**
- **Timely and relevant financial reporting**
- **Compliance with laws and regulations**

Costs should not exceed benefits

Internal Controls

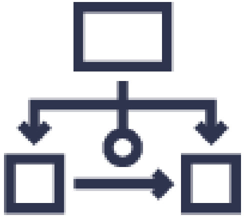
GAAS requires auditors to obtain an understanding of internal control *relevant to the audit*

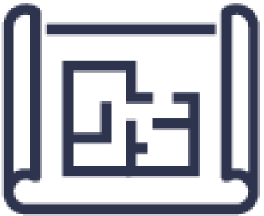
- Relevance is a matter of professional judgment

Auditor should evaluate the ***design*** and ***implementation*** of relevant controls

Internal Controls

Auditors test the following regarding controls for relevant assertions:





Design – how the systems of internal control are **structured** to operate

Implementation – how the systems of internal control are **executed** in operations

Internal Controls

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

CONTINUED

Internal Controls- Audit Procedures

Reasonable Assurance

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

Persuasive rather than *conclusive*

Documentation

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

Internal Control Documentation and Testing

- Perform all necessary risk assessment procedures (understanding the entity)
- Assessment and testing of IT systems and related controls
- Perform preliminary analytical procedures
- Review board minutes
- Prepare confirmations
- Obtain all information necessary to update permanent file records
- Conduct SAS 99 interviews

Practical Example

Financial Statement Assertions – Accounts Receivable

- Existence and Occurrence*
- Completeness
- Accuracy and Classification*
- Rights and Obligations
- Valuation and Allocation
- Presentation and Disclosure
- Cutoff*

***Denotes potential audit risk**

Internal Controls – Accounts Receivable

- **Existence/Accuracy** – How does the entity recognize receivables are valid claims against debtors and are properly recorded at the estimated realized value?
  - *Observe* the Treasurer/Collector's process for posting tax commitments to the general ledger
  - *Inspect* tax commitments for proper board approvals

Inspection of documentation also performed with assessor related to property tax database

Internal Controls – Accounts Receivable

- **Cutoff** – Do the Collector/Treasurer (Custodian) and Town Accountant/Finance Director (Recordkeeper) reconcile accounts receivable outstanding at year-end?
  - *Inquire* about the process
  - *Inspect* the reconciliations and compare to source documents

Internal Controls – Review

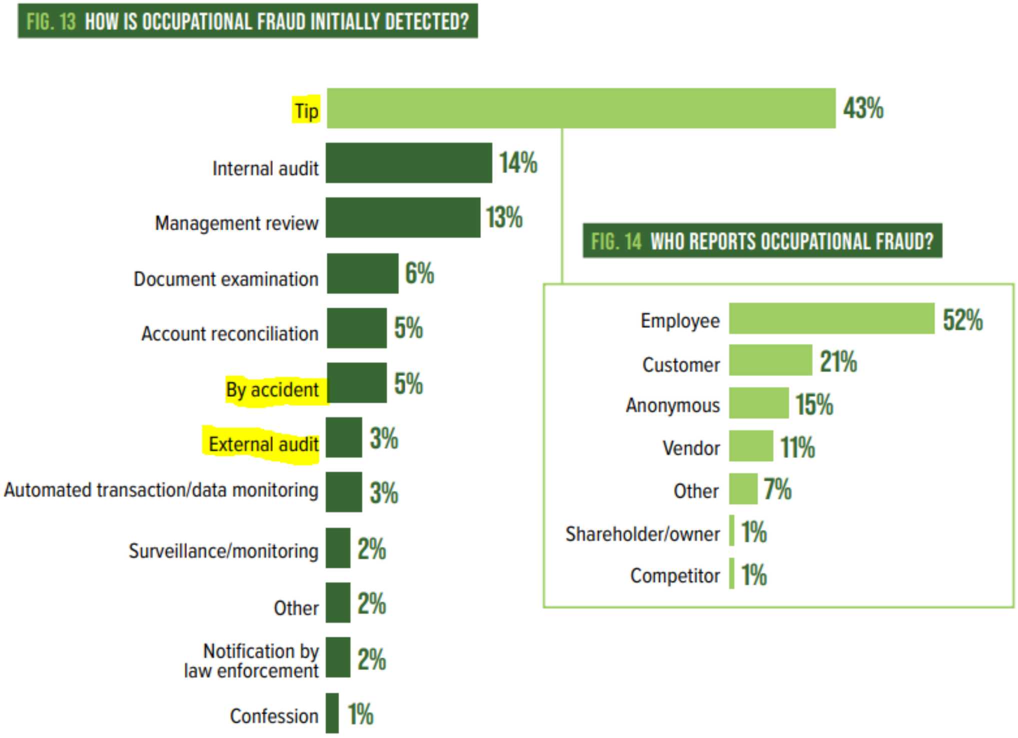
Assertion

Control

Testing

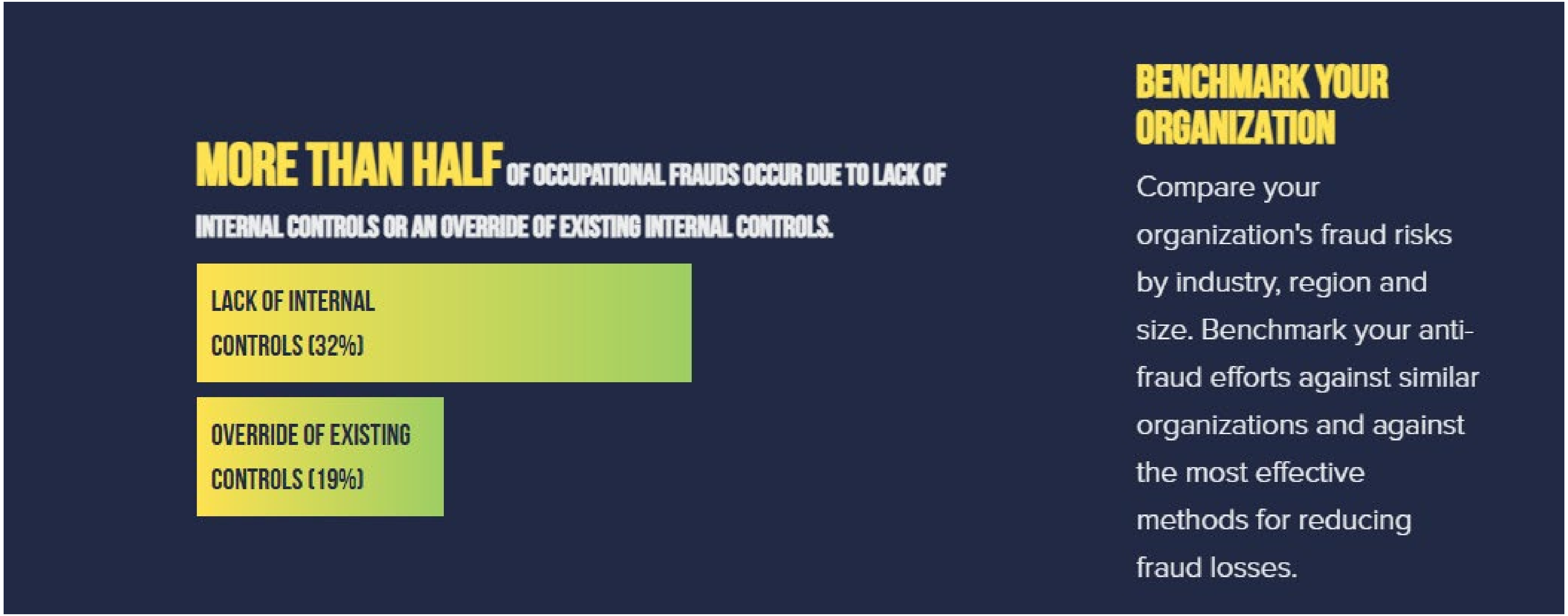
Consideration of Fraud Risks

Internal Controls – Fraud Risks



*Source: https://www.acfe.com/-/media/files/acfe/pdfs/rttn/2024/2024-report-to-the-nations.pdf

Internal Controls – Fraud Risks



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Internal Controls – Fraud Risks

The primary responsibility for the prevention and detection of fraud rests with **management and those charged with governance**

The auditor is responsible to make inquiries of management and others within the entity to determine whether they have knowledge of any fraud impacting the entity

Internal Controls – Fraud Risks

Questions about suspected or known fraud occurring should not be taken lightly

An opportunity to shine a light on areas that need a closer look

Not all entities want to expose fraud as it shows a lack of management and oversight

- Ignoring fraud encourages fraudulent activity

Utilize the audit function to address suspected fraud

Preliminary Fieldwork: Key to Success

1 Provide all information requested timely	2 Assist in resolving discrepancies
3 Stress importance of scheduling SAS 99 interviews sooner rather than later	4 Coordinate early with actuaries
5 Coordinate early to obtain service organization reports	6 Connect/coordinate with information technology department

Single Audit Overview

Single Audit Overview

Single Audit is a federal Act and compliance with the requirements is not optional. Auditors and auditees must comply with requirements.

The Single Audit is in accordance with Uniform Guidance (2 CFR 200).

Single Audit compliance requirements are based on the OMB compliance supplements, grant agreements and notice of awards.

The auditee is responsible for creating the schedule of federal awards which is used to determine the major programs.

Single Audit Overview (continued)

Major programs are determined based on criteria set forth by the Uniform Guidance.

Each major program will be audited in accordance with the compliance requirements that are direct and material to the program. Auditor will test the internal control over a compliance requirement and compliance.

A corrective action plan is required for each audit finding.

The auditee require to provide the auditor a summary of prior year findings which includes the current year status of the findings.

Ways to Prepare for a Single Audit

Make yourself available

- Communicate the single audit schedule to all affected staff
- Provide auditors full access to the appropriate program and fiscal staff

Prepare your Schedule of Expenditures of Federal Awards

- Prepare your Schedule of Expenditures of Federal Awards
- Understand the required elements of the SEFA

Be familiar with the requests your auditor is making

- The prepared by client list is designed to assist the fiscal and program staff in gathering the appropriate information for the audit
- Take the time to review this list with staff immediately upon receipt and start communicating any questions or concerns to your auditor as soon as possible.
- The single audit testing is not a surprise – review the compliance supplement specific to the program being audited which lists all testing requirements

Ways to Prepare for a Single Audit (continued)

Understand and identify applicable compliance requirements

- Understand the applicable compliance requirements for each grant.
- Obtain and review the UG Compliance Supplement.

Review your expenditures in advance of the audit

- Hold a staff meeting to discuss the types of expenditures that occur under each federal grant, and whether potential unallowable costs can be identified and segregated in your accounting records
- Consider proactively communicating with your auditors about any potential questionable areas when identifying allowable and unallowable costs

Other recommended practices

When a grant is received, retain a copy and review it

Flag any reporting or other required submissions and their due dates

Track your federal awards separately

Maintain all grant related documentation

If your grantor give you special approval, keep record of those communications and approval

Stay in touch with your auditor throughout the year

Questions?