

Audit Committee Meeting Sample Checklist for Annual Financial and Compliance Audit

Remember, except for meeting with the independent auditor on certain audit issues, all audit committee meetings should, in accordance with state statute, be open meetings, public notice given and written minutes of the committee meetings should be taken and filed with the county clerk.

First annual meeting (administrative session)

- Review the committee's enabling resolution annually, Assess the appropriateness and completeness of the resolution in light of the previous years' experience, new best practices, and new legal or regulatory requirements. Recommend any proposed changes to the governing body.
- Elect Chairman, Vice Chairman, and Secretary
- The committee should assess that the audit committee has access to financial expertise with governmental accounting and auditing standards, whether in the form of individuals serving on the committee, or with a contracted consultant/accountant.
- The committee should perform an assessment of the independence of its membership (see AICPA self-evaluation worksheet as an example).
- For new audit committee members: Review prior year audits of primary government and component units. Review any identified prior year issues (audit findings) of internal control or material misstatements and any written corrective action plans. This will lay the groundwork for the upcoming audit (i.e. to see if the issues were corrected during the current fiscal year).
- Give independent auditors notice that the audit committee wishes to meet with them after the annual financial and compliance audit is complete and the audit report released.

Second meeting

The audit committee should have a separate meeting after the release of each annual financial and compliance audit of the primary county government and each of its component units (E911, etc). The independent auditor responsible for the audit to be reviewed should be invited to this meeting. If the committee believes it is warranted, part of the meeting may take place in private (in accordance with T.C.A. 9-3-405). Prior to the meeting, all audit committee members should read and review the recently released audit report.

The audit committee will ascertain the independence of the external auditor, the competence of the auditor and the completeness of the audit. Consider asking the following type questions.

Independence

- Did the independent auditor perform any non-audit services to Sample County that would impair the independence of the auditors?
- Has the auditors made it clear to county management (and these statements are in writing and signed by management in a management representation letter) that any and all non-audit services provided by the independent auditors is strictly technical in nature and that county management has accepted responsibility for the presentation of the financial statements? Ask to review these signed statements.

- Ask if any of the audit staff assigned to the audit are from, live in, or have close relatives (parents, children, etc.) living in the county. If the answer is yes, verify if these individual auditors have any relationship with county management (spouse, parent, child, close friend) that may impede the auditor's independence. If there appears to be a conflict of interest, ascertain what steps have been taken to eliminate this actual or perceived conflict of interest.
- Ask if the audit staff have any preconceived notions about the county's government.
- Inquire when was the last time that different auditors were assigned to the field audit staff of the county, in order that there is a new perspective provided.

Competence of the audit staff

- Ascertain the education level of the audit staff assigned to the county's audit. Recommended that there should have been at least one Certified Public Accountant, Certified Fraud Examiner, or Certified Government Financial Manager on the audit staff assigned to the field work of the county's audit.
- Ascertain the experience level of the audit team that was assigned to the county's audit. The field staff should have some level of prior experience in audit work.
- Inquire about the auditor's last independent peer review (as required by Government Auditing Standards). Ask if the peer review identified that the auditor's internal quality control system is in place and operating effectively. Also ask if the peer review provided assurance that established policies and procedures and applicable auditing standards are being followed by the independent auditor. Inquire if the peer review actually reviewed your county's audit work papers and if so, were there deficiencies noted?

Completeness of the independent audit

- Ask if the auditors were able to obtain any and all requested documents needed from county management to complete their audit.
- Did the auditors encounter any resistance from county management with record requests? Were records available promptly or were there long delays?
- Do the auditors believe the financial statements, of the county, are fairly stated and materially reflect the financial operations of Sample County? If no, why not?
- Did the auditors feel that they had sufficient time to perform their audit adequately?
- What is the opinion that the auditors are giving on the presentation of the annual financial statements? What is the basis (in summary) for this opinion?

- Request a copy of the signed audit engagement letter and review this. Ask if the agreed upon audit procedures were completed.

Review of Internal Control and non-compliance issues

- Review any audit findings with the independent auditor. Pay particular attention to audit findings that identified internal control weaknesses in the financial reporting process. Obtain an understanding of why the audit findings have been taken. Review the auditor's recommendation to correct the audit finding and inquire about any possible alternative solutions.
- Identify all audit findings that are repeat findings. Ask the auditor if county management appears to be vigorously attempting to correct these repeat audit findings.
- If the auditor states that county management is vigorously attempting to correct repeat audit findings, but the findings are still repeating, ask the auditor if, in their professional judgment, county management appears to have the technical skills and abilities to correct the audit finding.
- Review over any noncompliance with generally accepted accounting principles and ask for the auditor's recommendation to correct these issues.

Third meeting

The purpose of the meeting is to address any audit findings and non-compliance with generally accepted accounting principles, as noted by the independent auditors, with county management and ascertain the current disposition of these issues. All county officials that received an audit finding should be invited well in advance to attend this meeting and given the reason for the need for their presence.

- Any management official of Sample County that receives an audit finding that is significant or material in nature should be given the opportunity to be present at this committee meeting or to send a written corrective action plan to explain how the deficiency occurred and what steps have been taken to correct the deficiency. In the case that an elected or appointed official of the county, that has received such an audit finding, refuses to appear before the audit committee or submit some form of corrective action plan, the committee shall make note of this failure in its official written minutes and subsequent report to the full commission.
- The audit committee will make the public aware during this meeting that any citizen, employee or taxpayer of the county can report suspected fraud, waste and/or abuse of Sample County tax funds confidentially by the Comptroller's Fraud Hotline (i.e. 1-800-232-5454). The audit committee will ensure that a public notice be published at least annually, in a local newspaper of general circulation, to make citizens aware of the confidential hotline to report suspected waste, fraud or abuse of Sample County's funds. The audit committee should ensure that

notices about how to report suspected fraud to the Comptroller's Hotline is posted conspicuously in public buildings owned by the county.

After the audit committee has finished its review of findings with county management, the committee should make determine the following:

- I. That the financial statements of Sample County, based on the independent auditors report and the audit committee review, appear to be fairly presented and free of material misstatement, or if not, what are the reasons for this.
- II. That, based on the committee's review and observations, county management appears to be taking sufficient (or insufficient) steps to correct any identified internal control weaknesses and any material and/or significant audit findings. If audit findings are repeat findings, the committee should make a determination if county management appears to lack the desire or the ability to correct these issues.
- III. That based on the audit committee's assessment, the independent auditors of the county appear to be independent of county management, the independent audit was performed in compliance with Generally Accepted Auditing Standards and the auditors were professionally competent.

Upon the audit committee making their determinations, the chairman of the committee will present the committee's answers to these questions, along with any committee recommendations, to the full county commission at the next regularly scheduled commission meeting

Note: The checklist for meeting two and three could be utilized to review any additional, separately issued audit reports of component units of the county.