



## WHAT YOUR AUDITOR WISHED YOU KNEW ABOUT THE AUDIT PROCESS

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- What is an audit gone wrong?
- Two perspectives on the F/S
- Common audit issues
  - Causes
  - Solutions
  - CPA firm practices that affect them

## What is an audit gone wrong?

- Missed deadline
- Report was issued with undetected errors
- Billed extra
- Undue burden on staff or auditors

The logo for PR&H, featuring the letters 'P', 'R', '&', and 'H' in a bold, serif font. The ampersand is stylized and integrated between the 'R' and 'H'.

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**Perspectives on  
the Financials**





# Two Kinds of People

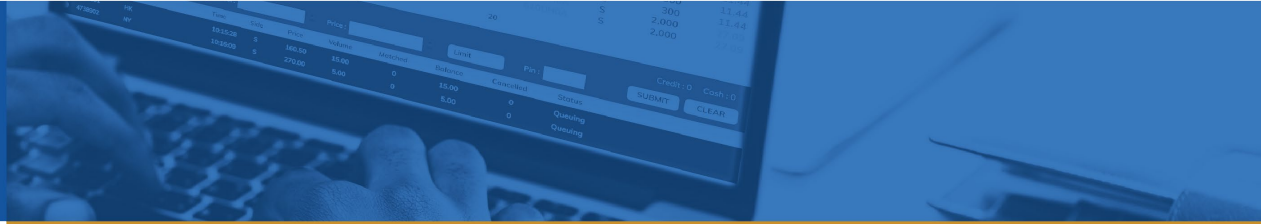


**COMMITMENT** to the present... **VISION** for the future.



## Two basic ways most of us learned financial reporting

- ACFR-down
  - Started out looking at #s by fund and section
  - Learned the whole ACFR before learning the “why”
  - Virtually all auditors
- Budget-up
  - Started in day-to-day processing
  - Reporting emphasizes the period rather than a single date
  - Learned the business end before the ACFR



- [-] 4000 Assets and Deferred Outflows of Resources
  - [+] 4100 Cash & Investments
  - [+] 4200 Receivables
  - [+] 4300 Due From Other Governments
  - [+] 4400 Due from Other Funds
  - [+] 4600 Capital Assets
  - [+] 4700 Inventory
  - [+] 4900 Deferred Outflows of Resources
- [-] 5000 Liabilities and Deferred Inflows of Resources
  - [+] 5100 Accounts Payable
  - [+] 5200 Accrued Liabilities
  - [+] 5300 Long Term Liabilities
  - [+] 5400 Due to Other Funds
  - [+] 5500 Unearned Revenue
  - [+] 5600 Due To Other Governments
  - [+] 5900 Deferred Inflows of Resources
- [+] 6000 Net Position and Fund Balance
- [+] 7000 Revenues
- [+] 8000 Expenditures/Expenses

### **FIRE/EMS - OPERATIONS**

<b>CATEGORY</b>	<b>FY 2021 Actual</b>	<b>FY 2022 Current Budget</b>	<b>FY 2023 Adopted Budget</b>
Salaries, Benefits, & Support	\$ 3,958,147	\$ 4,268,571	\$ 4,275,283
Supplies & Materials	156,276	216,803	221,850
Maintenance & Repair	90,601	100,745	95,197
Contractual Services	102,051	114,587	139,292
Designated Expenses	-	-	-
Capital Outlay & Improvements	79,230	13,688	1,235,045
<b>Total</b>	<b>\$ 4,386,305</b>	<b>\$ 4,714,394</b>	<b>\$ 5,966,667</b>





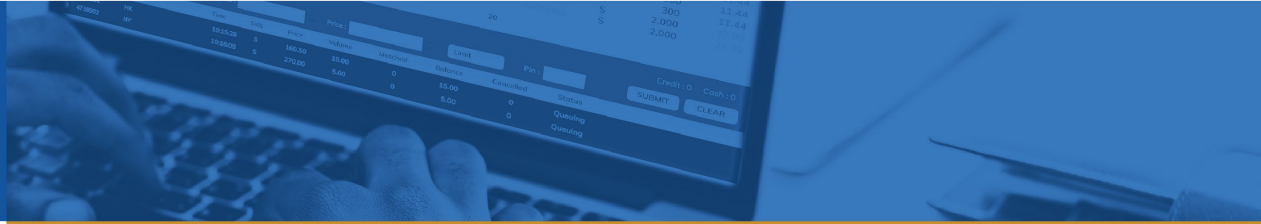
## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pattillo County, Texas (the "County"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

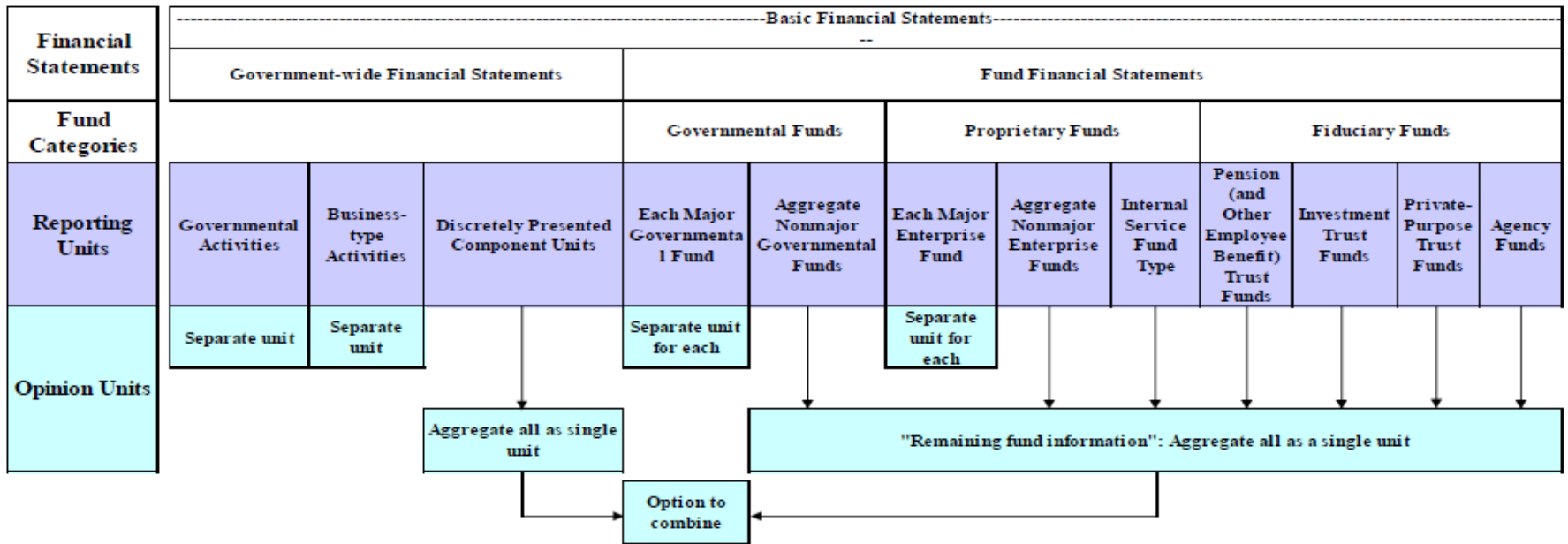
In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.





# Materiality - Auditor

## Overview of Reporting Units and Opinion Units FOR DISCUSSION PURPOSES ONLY



**Audit Materiality is based on the opinion unit**



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## Common Audit Issues

- Balance sheet not reconciled
- Untimely information
- Surprises
  - Grants/single audit programs
  - Leases/SBITAs
  - Significant changes or issues

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# The Balance Sheet





**The idea:** virtually every balance at YE should tie to support

**The audit effect:** the support you use to verify the balance is usually also what your auditor needs

**The problem:** Procedures over the BS are often lacking because the Budget-Down view emphasizes the income statement

*(Well, that, and also, when was the last time a board member asked you about prepaids?)*

- Cash is (hopefully) reconciled monthly
- Why stop there?
- Use the same concept for reconciling the BS:
  - Review the balance as of year-end
  - Gather support for what the balance *should* be
    - Aging report/subledger
    - Supporting calculations
  - Find out why they're different
- Make sure support is *external*, not a transaction listing



## The Auditor's Part:

- Basic approach is to get support and then test details
- Their requests may be very generic, esp. in first year
- Don't let them make you chase down a subledger if that isn't what you need!

25. AR Aging Report for unbilled utility receivable at 9/30/23
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26. Subledger for Payroll Accrual at 9/30/23
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27. Subledger for Landfill Closure Liability at 9/30/23
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Timely  
Information



**The idea:** most governments schedule their audit at a certain time to meet a certain deadline

**The audit effect:** Audit staff are booked out months in advance based on the agreed timeline

**The problem:** After that scheduled time, any unfinished work has to be worked in around the next fieldwork

**The (other) problem:** The amount of time needed to finish an area can double or triple if we don't get all the correct info at once

**The (other) (other) problem:** certain audit procedures have to be continued until the audit is finalized

Okay, so what can we *do* about it?

- Review last year's PBCs to see what was finished the latest. Why?
  - Waiting on 3<sup>rd</sup> parties?
  - Labor-intensive to prepare?
  - Takes a while for you to get around to it?  
Can someone be cross-trained?

## A few tricks to being ready

- Identify items that can be completed before year-end or quickly thereafter
  - Debt schedules
  - Retirement payment reports
  - Capital assets
  - Check registers and billing registers
- For items needing 3<sup>rd</sup>-party info, get the ball rolling ASAP
- Set a timeline: start with audit week 1 and work backward

## Asking for Help

- Sudden turnover or prolonged vacancies are hard to overcome
- Your auditor can engage for some nonattest services, but they **MUST** maintain independence
- Many CPA firms offer consulting services
  - 3<sup>rd</sup> party doesn't have to be independent
  - Can prepare original documents (bank recs, accruals)
  - Can make management decisions (estimates, classification decisions)
  - Engage for a little or a lot – from capital assets to drafting the ACFR



## The Auditor's Part:

- We need a lot of stuff on day 1, but no, we don't need *everything* on day 1
- Clarify timeline when:
  - Their "priority items" is a long list
  - Their list has the same due date for everything
- The curse of giving lots of info upfront: a disorganized auditor may ask for things twice
  - Organize your files to mirror their PBC list
  - Avoid emailing lots of stuff, or at least, update your audit file with the stuff you emailed

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**PR&H**

The word 'Surprises!' in a bold, orange, sans-serif font, positioned on a dark blue background that is part of a larger graphic overlay.

**Surprises!**

**The idea:** Surprises = bad for you

**The audit effect:** Surprises = bad for auditor

**The problem:** Bad for you + bad for auditor = sadness

- The real cause is unknown information
- This is sometimes unavoidable, but it can also be caused by info we *knew or should have known*
- Goal: avoid problems caused by “Unturned stones”



## Some surprises you can mitigate

- Grants/single audit programs:
  - Review revenues (esp. intergovernmental) as part of year-end close. Be sure you know what it is, and that it's not a grant
  - Review GL for reimbursements netted against expenditures
  - Non-cash grants often hide at the airport
- Leases/SBITAs:
  - Extend your GL review for possible leases to include after year-end expenditures
- Legal issues:
  - Review expenditures
  - Discuss with management and department heads

## Don't forget to communicate

- Don't forget to tell your auditor about important changes. Keep a list of possible items and update it throughout the year, not just when they send the questionnaire
- Also consider communicating issues to your auditor as they occur
  - Significant Turnover
  - Cybersecurity events
  - New debt/grants

## The Auditor's Part:

- Firms have multiple review layers that can mystify communication and slow the process
- Junior staff more likely to communicate complex things through email instead of talking
- Regular meetings with audit team can improve communication with senior staff as well as client
- If auditor drafts the A(C)FR, last-minute drafts are no fun
  - Ask to review unaudited budget schedules early
  - Ask for a trial balance and AJE's ahead of the draft to review entries and reconcile numbers (hint: their entries are to *your* *financials!*)

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**PR&H**

The word 'Questions?' in a bold, orange, sans-serif font, positioned on a dark blue background that is part of a larger image showing a calculator and a pen on a document.

**Questions?**