

**CITY OF HAYWARD  
AUDIT PLANNING MEETING AGENDA  
For The Year Ended June 30, 2015**

Audit standards require us to communicate with our auditee to discuss the audit process including:

- Auditor's responsibilities under U.S. Generally Accepted Auditing Standards
- Concept of materiality in planning and executing the audit
- Audit scope
- Audit timing
- Management representations
- Fraud considerations

***Our Responsibility under U.S. Generally Accepted Auditing Standards***

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of the audit we will consider the City's internal control. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

***Materiality***

Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 2 (CON-2), *Qualitative Characteristics of Accounting Information*, defines materiality as the "magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement." In planning and performing the audit, we use professional judgment to determine a level of materiality. Factors considered in this evaluation include the components of the financial statements believed to be the most critical to users and the extent of adjustments detected in prior audits.

### ***Audit Scope***

Council approved our contract in 2011 which incorporates our proposal detailing our audit approach and timing. Audit scope generally includes the following subject to adaptation from our risk assessment process:

- Perform risk assessment brainstorming and planning
- Create audit plan tailored to the City and sector
- Transactions cycles subject to control testing and sampling:
  - Revenue/receivable
  - Disbursements/accounts payable
  - Payroll/accrued liabilities
  - Loans receivable
  - Federal award transactions
- Transactions cycles testing:
  - Controls over cash transactions and accruals
  - Test of transactions
  - Tests of information system application controls
  - Confirmations generally not used as they are ineffective
  - Accrual tests at year end
- Transactions and balances tested in total:
  - Cash and investments tested via bank reconciliation tests and confirmation of bank balances
  - Capital assets tested through corroboration with capital outlay and council authorizations on a test basis and estimate of depreciation
  - Debt and debt service through confirmation and indenture terms
  - Compensated balances through estimation
  - Claim payable through claims loss run and actuarial studies, if any
- Evaluate overall duty assignment including:
  - Focused attention to conflict of duties – employees with access to assets and related recorded used to control and account for those assets
  - Tests of mitigating controls
- Information system controls tests:
  - An information system review is performed by our IT specialist
  - Application controls tested through transaction cycle tests
- Perform compliance tests
  - Single Audit Act: Federal regulations applicable to federal awards
  - Transportation Development Act Program compliance with State regulations
  - ACTC Master Funding Agreement
  - Certain Government code provisions applicable to cash and investments
  - Certain Government code provisions applicable to new debt issues
  - Local policy compliance, typically:
    - Investment
    - Purchasing

- Financial statement preparation assistance
  - Staff has request that we provide assistance the preparation of financial statements and disclosures
  - We are satisfied staff have the capability to perform this task themselves.
  - Financial statement presentation and disclosures are evaluated and amendment proposed as needed

***Audit Timing***

We have met with staff and agreed the following schedule:

- Interim fieldwork: June and July 2015
- Final fieldwork: two-and-a-half weeks starting November 9, 2015
- Reports Finalization: December 2015
- Single audit fieldwork: January 2015

***Management Representations***

We will request representations from management that data and assertions provided are complete and accurate. We rely primarily on our audit verification tests and procedures, however, management assertions and judgments unavoidably affect financial data.

***Fraud Considerations:*** Statements on Audit Standards (SAS) #99, *Consideration of Fraud in a Financial Statement Audit*. This Statement came out of the fall out of Enron/ WorldCom and other private sector frauds.

1. “Fraud” is defined as an intentional act that results in a *material misstatement in financial statements* that are subject to audit. In this case, fraud includes two concepts:
  - a. Fraudulent financial reporting:
    - i. Misstatement including misapplication of accounting principals, omission of data or disclosures, fictitious transactions or sham transactions
    - ii. Concealment
  - b. Misappropriations of assets:
    - i. Theft
    - ii. Concealment
    - iii. Conversion
2. SAS #99 requires an inquiry of auditee officials
  - a. Auditee officials to include:
    - i. Council members/audit committee members
    - ii. City Manager
    - iii. Finance Director
    - iv. Others outside Finance (optional)
  - b. Areas to be discussed:
    - i. Are you aware of known instances of fraud?
    - ii. Are there areas you believe are “Susceptible to Fraud”
  - c. Areas automatically deemed susceptible to fraud:
    - i. Improper revenue recognition
    - ii. Management override of internal control
3. SAS #99 also requires that we address our auditee’s “Fraud Risk Assessment and Monitoring Programs”
  - a. Prevention techniques
  - b. Deterrence techniques
  - c. Detection techniques