

TOWN OF ATHERTON
AUDIT PLANNING COMMUNICATIONS
For The Year Ended June 30, 2009

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

- Audit Scope
- Audit Timing
- Management Representations
- Fraud Considerations

Audit Scope

The Town Council approved our contract which incorporates our proposal detailing our audit approach and timing. Audit scope generally includes the following items which are subjected to adaptation as a result our risk assessment process:

- Perform risk assessment brainstorming and planning
- Create audit plan tailored to the Town and sector
- Transactions cycles subject to control testing and sampling:
 - Revenue/Receivable
 - Disbursements/Accounts Payable
 - Payroll/Accrued liabilities
 - New debt issuance and recorded transactions – none in current year
 - Loans Receivable (only if applicable)
 - Measure A
- 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: & Investments tested via bank reconciliation tests and confirmation of bank balances.
 - Capital assets: tested via corroboration with capital outlay and council authorizations on a test basis and estimate of depreciation.
 - Compensated absences balances: via estimation.
 - Claim payable: via claims loss run and actuarial studies, if any.

- Evaluate overall staff duties/functions assignment including:
 - Focused attention to conflict of duties – employees with access to assets and related records 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 via transaction cycle tests
- Perform compliance tests
 - Single Audit Act (only if applicable): Federal regulations applicable to federal awards.
 - Measure A
 - Certain Government code provisions applicable to cash and investments
 - 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 amendments are proposed as needed

Audit Timing

We have met with staff and agreed the following schedule:

- Interim audit fieldwork: In process – 2 weeks, started June 15, 2009.
- Final audit fieldwork: 2 weeks commencing September 28, 2009.

Management Representations

At the end of the audit, 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, without doubt, affect financial data.

Fraud Considerations

Statement on Auditing Standard (SAS) No. 99, *Consideration of Fraud in a Financial Statement Audit*. This Standard 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:
 - i. Fraudulent financial reporting:
 1. Misstatement including misapplication of accounting principals, omission of data or disclosures, fictitious transactions or sham transactions
 - ii. Misappropriations of assets:
 1. Theft
 2. Concealment
 3. Conversion
2. SAS No. 99 requires an inquiry of client
 - a. Client officials to include:
 - i. Council member.
 - ii. Town Manager
 - iii. Finance Director
 - iv. Others outside Finance (optional)
 - b. Areas to be discussed:
 - i. Is management aware of any known instances of fraud?
 - ii. Are there areas that you believe are "Susceptible to Fraud"
 - c. Areas automatically deemed susceptible to fraud:
 - i. Improper revenue recognition
 - ii. Management override of Internal Control
 - d. Do you feel that any employees or contractors are dishonest or lack integrity?
3. SAS No. 99 also requires that we address our client's "Fraud Risk Assessment and Monitoring Programs" (a.k.a. internal controls plus, etc.)
 - a. Prevention techniques
 - b. Deterrence techniques
 - c. Detection techniques