



Directives for Auditors

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](http://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

The University of Tennessee
Municipal Technical Advisory Service
1610 University Avenue
Knoxville, TN 37921-6741
865-974-0411 phone
865-974-0423 fax
www.mtas.tennessee.edu

Table of Contents

Directives for Auditors.....	3
------------------------------	---

Directives for Auditors

Reference Number: MTAS-659

Auditors should be asking more questions about internal controls, checks and balances, the control environment, and policies and procedures. Recently issued auditing standards, SAS 109 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and SAS 115 *Communicating Internal Control Related Matters in an Audit* have a direct impact on local governments.

SAS 109 requires that auditors gain a more thorough understanding of the government's environment, including internal control. This standard defines internal control as:

"A process affected by those charged with governance, management, and other personnel designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations."

SAS 115 requires the auditors to redefine internal control deficiencies documented during the audit process. Municipalities may have more audit findings in their reports than in prior years. This may not mean you are handling transactions differently than in the past but auditors may not have asked the detailed level of questions that are now required in order to document compliance with these standards. Audit findings in the past that were referred to as "reportable conditions" are now called "significant deficiencies." The term "material weakness" remains the same. Local governments that have not adopted control procedures to ensure financial transactions are processed accurately and completely will see "significant deficiencies" or "materials weaknesses" in their audit reports.

The standard also requires certain communications related to significant deficiencies and material weaknesses to be made in writing to management and those charged with governance. The person(s) who holds responsibility for strategic oversight for the direction of the entity and obligations for the accountability of the entity are considered "those charged with governance." In local governments, that is usually the board of mayor and aldermen, council or commission. Management and elected officials should expect to see and hear more communications before, during and after the audit.

A few examples of control deficiencies found in government auditing guidance that might be the basis for an audit finding include:

- Lack of awareness of the importance of controls by top management (elected officials, mayor, city manager or administrator)
 - Failure to ensure that policies and procedures are adopted
- Ineffective oversight by those charged with governance
 - Failure to hire competent personnel in key management positions
- Control systems (check and balances) are not adopted or are not working properly
- Identification of fraud
- Failure by management to correct previously communicated deficiencies

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

Source URL (retrieved on 10/15/2019 - 8:46pm): <http://www.mtas.tennessee.edu/reference/directives-auditors>



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE