

## Auditor Communications

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Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://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,

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## Auditor Communications

Reference Number:  
MTAS-739

Statement on Auditing Standards 114 (SAS 114), *The Auditor's Communication with Those Charged with Governance*, requires that auditors communicate certain information to those charged with governance of the municipality. Who that might be varies from one municipality to the next, but ultimately it is the local governing board. Tennessee Code Annotated § 6-56-101 states "It is the duty of the governing board of every municipal corporation to have a thorough audit of the financial affairs of the corporation ..."

If the municipality has established an audit committee or has a finance committee, then that committee has the responsibility to oversee the audit function. If there is no such committee, then the full governing board would be considered to be "those charged with governance" for the purpose of auditor communication. The audit standard defines "those charged with governance" as:

"the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity."

The auditor communication does not relieve management from also communicating certain matters to those charged with governance. Management is defined by SAS 114 as: "the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting." Management in your city or town could be the mayor, city manager, city administrator or finance officer. It will vary depending on how the governing board and the city charter delegates the responsibilities of municipal government.

### **Purpose of Communication**

The purpose of the auditor communication with those charged with governance is to:

- Communicate the responsibilities of the auditor as related to the financial statement audit and provide an overview of the scope and timing of the audit;
- Obtain information relevant to the audit; and
- Provide timely observations, arising from the audit, that are relevant to their responsibilities of oversight.

### **Form of Communication**

Communication may be written or oral. The auditor must use professional judgment to determine when oral communication would not be adequate. Whether delivered in writing or orally, the communication must come directly from the auditors. The auditor cannot rely on municipal management to relay the required communication to the governing board.

### **Content of Communication**

Municipal officials should receive auditor communication at the beginning of the audit process which explains:

- the auditors' responsibilities for the audit
- an overview of the scope of the audit
- the timeframe of the audit

This may be in the form of an audit engagement letter or in a separate letter.

Another auditor communication should be made at the end of the audit process that details significant matters encountered during the audit. Significant findings may include:

- Unacceptable or inappropriate accounting practices
- Difficulties experienced during the audit
  - Significant delay receiving information from management
  - Unnecessarily brief time to complete the audit
  - Extensive unexpected effort required to obtain sufficient appropriate audit evidence
  - Expected information is unavailable
  - Management imposed restrictions on auditors
  - Management's unwillingness to provide information on how it plans to deal with going concern issues
- Material uncorrected misstatements in the financial statements
- Disagreements with management
- Management's consultation with other accountants
- Significant matters discussed with management

**Two-way Communication**

It is the responsibility of the auditor to ensure that communication with those charged with governance is adequate. If the governing body is not receiving adequate information concerning the audit process and audit findings, it is the auditor's responsibility to make necessary changes in the communication process to ensure audit information is properly communicated.

**In Summary**

Municipal elected officials and municipal management should be aware of the communications that auditors should make related to the annual audit. The governing board is ultimately responsible for ensuring the audit is performed. The governing board, audit committee or finance committee should make every effort to understand the auditor communications and ask questions when certain matters are not clear. The auditor cannot delegate his obligation to communicate with the governing body to municipal management. Auditors who do not formally present audit reports at board or committee meetings should mail the required communications and a copy of the audit report directly to each board or committee member.

**References:**

AICPA, Generally Accepted Auditing Standards, AU Section 380.

AICPA, SAS 114, The Auditor's Communication with Those Charged with Governance.

Government Accountability Office, Government Auditing Standards, GAO-07-731G.

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