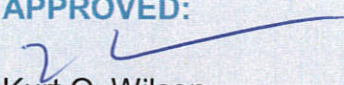


<b>SUBJECT:</b> Audits, External, CAFR, Findings, Recommendations	<b>NUMBER:</b> 17.02.020
<b>RESPONSIBLE OFFICER:</b> CFO, Administrative Service Department, City Treasurer	<b>EFFECTIVE DATE:</b> 4/09/2018
<b>POLICY OWNER:</b> CFO, Administrative Services Department, City Treasurer	<b>LAST UPDATED:</b>
<b>POLICY CONTACT:</b> CFO, Administrative Services Department, City Treasurer	<b>APPROVED:</b>  Kurt O. Wilson

## POLICY

- 1) The City's accounting and financial reporting systems will be maintained in conformance with generally accepted accounting principles and standards of the Government Accounting Standards Board, and will strive to meet the requirements of the GFOA's Award for Excellence in Financing Reporting program.
- 2) The City of Stockton shall contract out for the external audit services of a qualified independent public accounting firm. The services of certified public accountants will be provided under a professional services agreement and will be procured in accordance with all relevant laws, regulations, and policies. All audit contracts will be procured in accordance with the City's purchasing policies and procedures.
- 3) The External Auditor shall perform an annual examination of the City's financial statements, which includes all financial transactions, assets and deferred outflows of resources, and liabilities and deferred inflow of resources. The City will strive for an unqualified auditors' opinion.
- 4) The City will issue audited financial statements within 180 days after year end.
- 5) This examination shall be performed in accordance with auditing standards issued by the American Institute of Certified Public Accountants (AICPA), the Comptroller General of the United States, the United States Office of Management and Budget, the State Controllers' Office, and other agencies with which the City shares grant agreements.
- 6) In their role as External Auditor, they must obtain a reasonable assurance about whether the financial statements are free from material misstatement. The External Auditor selects samples and conducts numerous tests across a wide variety of City functions to test the accuracy of the City's financial data. While this process includes a risk assessment in which the auditor considers internal controls, it is not for the purposes of expressing an opinion as to the effectiveness of the internal controls.



7) The annual audit reports shall document the following:

- a. Opinion on the City's compliance with requirements.
- b. Opinion on the fair presentation of the financial statements.
- c. Potential existence of fraud, as audit standards require the auditor to plan the audit to detect material misstatements caused by fraud or errors.
- d. At the start of the audit, the external auditor conducts interviews with key individuals at different levels and throughout the City under the Statement of Auditing Standards No. 99 process as required by the AICPA. Interviews seek to identify and assess risk of fraud in the financial statement audit. The auditor inquires about potential weaknesses in the organization that would impact financial functions and any knowledge of fraud. If during the performance of the audit fraud risk factors or other conditions are identified that cause the auditor to believe that an additional response is required, such risk factors or other conditions, and any further response that the auditor concluded was appropriate, also should be documented.

8) The External Auditor shall report to the Council on the qualitative aspects of accounting practices, corrected and uncorrected audit adjustments, disagreements with management, and difficulties encountered in performing the audit, if any.

9) The External Auditor may also do the following:

- a. Issue a letter to management on observations concerning the City's internal control structure, as well as areas of potential economy and efficiency.

In accordance with AICPA Auditing Standards, if, while conducting the audit, the External Auditor identifies risks of fraud in the financial statement audit or knowledge of fraud, the external auditor is required to make an immediate, written report of all irregularities and illegal acts, or indicators of irregularities and illegal acts, to the Council, City Manager and Chief Financial Officer.

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## **RESPONSIBILITIES**

### **Audit Committee**

- Provide sound governance through the evaluation of audit reports
- Ensure management upholds prudent financial practices and internal controls
- Ensure the quality and independence of the City's audit function

### **External/Financial Auditor**

- Conduct audits in accordance with auditing standards issued by the AICPA, the Comptroller General of the United States, the United States Office of Management and Budget, the State Controllers' Office, and other agencies with which the City shares grant agreements

### **Director of Administrative Services/ CFO**

- Assist work of External Auditor by providing information or documents upon request
- Ensure the timely, complete, and appropriate performance of the external audit
- Establish and maintain a schedule of key milestones for City staff and the external auditor to ensure the successful and timely preparation of the financial audit Document City staff's roles

and responsibilities, including the delegation of any activities related to the preparation of the external financial audit, in writing in ASD SOP's

- Delegate responsibilities to ASD staff; all responsibilities shall be assigned to a primary position and a designated backup

#### **Internal Auditor**

- Track audit findings and assess progress toward implementation of recommendations
- Report status of recommendation implementation to Audit Committee

#### **City Manager's Office**

- Compile all audit findings issued to the City
- Compile the implementation progress reported by Departments
- Manage External Audit contract

#### **Department Heads and Managers**

- Assist work of External Auditor by providing information or documents upon request
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### **RELATED POLICIES**

17.02.010 Internal Audits

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### **RELATED FORMS, DOCUMENTS, OR LINKS**

Comprehensive Annual Financial Reports (CAFRs):

<http://www.stocktonca.gov/government/departments/adminServices/finRep.html>

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### **FREQUENTLY ASKED QUESTIONS**

N/A

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### **UPDATE HISTORY**

N/A

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