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The Role of an Audit Committee/ City Council Member

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AGENDA

- What Does It Mean To Be an Audit Committee/City Council Member?

- Understanding the Entity's Mission, Vision, & Values

- Conduct Financial Oversight Responsibilities

- Oversee Risk Management Policies, Procedures, & Strategies

- Adhering to Good Governance Standards

- Questions & Answers

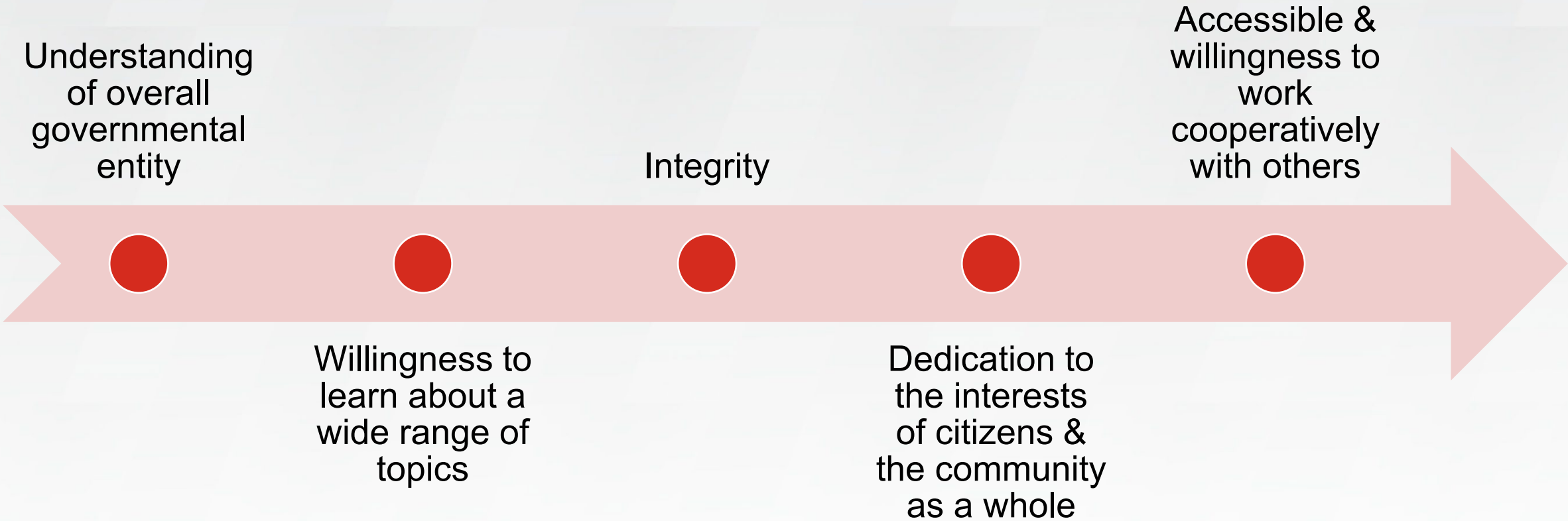
Meet Your Presenter



Rachel Ormsby, CPA
Director &
DFW Market Industry
Leader

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Role as an Audit Committee/ City Council Member – Leadership Attributes



Role as an Audit Committee/ City Council Member

- Purpose of an Audit Committee/City Council
 - Provide structured, systematic oversight of an entity's governance, risk management, & internal control practices
 - Serve as a guardian of the public trust, acting independently, & charged with oversight responsibilities for reviewing, not limited to, the following
 - + Internal controls
 - + Financial reporting obligations
 - + Operating efficiencies
 - + Ethical behavior
 - + Attention to cash flows, capital expenditures, regulatory compliance, & operations

Role as an Audit Committee/ City Council Member

Values & ethics

Governance structure

Risk management

Internal control
framework

Oversight of the
Internal Auditor (if
applicable), external
auditors, & other
providers of assurance

Financial statements &
public accountability
reporting

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Role as an Audit Committee/ City Council Member

Operational Responsibilities

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Meetings, Minutes, & Required Attendance

Regularly review the government's accounting, audit, & performance monitoring processes

Recommend nomination for an external auditor, as necessary

Responsible for oversight & monitoring of internal & external audit functions, & monitoring performance of, & internal compliance with, policies & procedures

Responsible for overseeing the annual audit by external auditors & any internal audits

Make recommendations regarding accounting, audit, & performance monitoring, including external & internal audits

Understanding the Entity's Mission, Vision, & Values

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Understanding the Entity's Mission, Vision, & Values

- All goals & objectives lead toward the government's mission, vision, & values
- All actions & decisions that Audit Committees/City Councils make should align well with the government's mission, vision, & values
- You should refer to these concepts & incorporate them into your strategic planning process
- It starts with each of you – “Tone at the Top”

Conduct Financial Oversight Responsibilities

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Financial Statements & Public Accountability Reporting



Review the scope of audits, including internal & external audits

Review with management & the external auditors the results of audit engagements, including difficulties encountered

Review significant accounting & reporting issues, including complex or unusual transactions & highly judgmental areas, & recent professional regulatory pronouncements, & understand their impact on the financial statements

Review the annual financial statements, Annual Comprehensive Financial Report (ACFR), & other reports issued & consider whether they are complete, consistent with information known to Committee/Council members, & reflect appropriate accounting principles

Review other financial reports, as necessary, issued by the entity in accordance with generally accepted accounting &/or audit standards & the corresponding external auditor's reports

Review matters required to be communicated by the external auditor to the Committee/City Council under generally accepted auditing standards

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Overview of Annual Comprehensive Financial Report (ACFR)

Letter of Transmittal

Independent Auditor's Report

Management's Discussion & Analysis

Basic Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information

Statistical Section

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Letter of Transmittal

Information
useful in
assessing a
government's
economic
condition

- Profile of the government
- Local economy
- Long-term financial planning
- Major initiatives
- Financial policies

Management's Discussion & Analysis

Discussion of the basic financial statements

Condensed comparative data (in the form of condensed financial statements)

Discussion of the government's overall financial position & results of operation

Analysis of the balances & transactions of individual funds

Analysis of budgetary variations

Description of capital asset & long-term debt activity

Discussion of currently known facts, decisions, or conditions

Statistical Section

- Multiyear tables presenting
 - Financial trends
 - Revenue capacity
 - Debt capacity
 - Demographic & economic information
 - Operating information

Understanding Financial Metrics & Benchmarks

Unassigned Fund
Balance of the General
Fund

Pension Funded Status

Certificate of
Achievement for
Excellence in Financial
Reporting (COA)
Program

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Unassigned Fund Balance of the General Fund – Background

- Essential that governments maintain adequate levels of fund balance to mitigate current & future risks
 - Revenue shortfalls
 - Unanticipated expenditures
- Essential to ensure stable tax rates

Unassigned Fund Balance of the General Fund – Recommendations

- Establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP & budgetary purposes
- Policy should be adopted by City Council & include process for how government would increase or decrease the level of unrestricted fund balance over specific time period
- Appropriate level – should take into account each government’s own unique circumstances
- Best practice – general-purpose governments (regardless of size), maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures

Upcoming GASB Pronouncements

GASB 87, Leases

*GASB 94, Public-Private
& Public-Public
Partnerships & Availability
Payment Arrangements*

*GASB 96, Subscription-
Based Information
Technology Arrangements*

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Upcoming GASB Pronouncements – GASB Statement 87, *Leases*

Summary

- Provides a new framework for accounting for leases under the principle that leases are financings
- No longer will leases be classified between capital & operating
- GASB 87 is effective for the majority of governmental entities FY2022 (FYE beginning after June 15, 2021)

Potential Impact

- Lessees will recognize an intangible asset & a corresponding liability
- Lessors will recognize a lease receivable & related deferred inflow of resources. Lessors will not derecognize the underlying asset
- Contracts that contain lease & nonlease components will need to be separated so each component is accounted for accordingly

Upcoming GASB Pronouncements – GASB Statement 94, *Public-Private & Public-Public Partnerships (PPPs) & Availability Payment Agreements (APAs)*

Summary

- Provides guidance on reporting PPPs & APAs
 - PPPs: arrangement where government contracts with an operator to provide public services by conveying right to an asset
 - APAs: arrangement where a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an asset
- GASB 94 language & concepts closely mirror the lease guidance provided in GASB 87
- GASB 94 is effective for the majority of governmental entities FY2023 fiscal year (FYE beginning after June 15, 2022)

Potential Impact

- Report a PPP asset & a corresponding PPP liability
- Disclose essential information about the arrangement

Upcoming GASB Pronouncements – GASB Statement 96, *Subscription-Based Information Technology Arrangements (SBITA)*

Summary

- Provides a new framework for accounting for cloud-based computing agreements
- GASB 96 language & concepts closely mirror the lease guidance provided in GASB 87
- GASB 96 is effective for the majority of governmental entities FY2023 fiscal year (FYE beginning after June 15, 2022)

Potential Impact

- Recognize a right-to-use IT asset & corresponding subscription liability for SBITA
- Disclose essential information of the arrangement
- Contracts that contain subscription & nonsubscription components will need to be separated so each component is accounted for accordingly

Oversee Risk Management Policies, Procedures, & Strategies

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Risk Management Responsibilities



Cybersecurity



Continuous Cybersecurity Education

Business Continuity Plan

Consider having a Cybersecurity Risk Assessment performed or Internal Audits (if applicable) specifically related to IT & Cyber Threats

Adhering to Good Governance Standards

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Governance Standards



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Additional Insights & Complimentary CPE

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What to Consider When Dealing with GASB 87 & FASB 842

Lease accounting practices are undergoing rapid change for many. With the updates from GASB 87 and FASB 842, organizations need to strategize how they adjust their operational processes and accounting methods.

Tags: [Lease Accounting](#), [Commercial Products](#), [Community Health Centers](#), [Healthcare](#), [Higher Education](#), [Nonprofit](#), [Public Sector](#), [Senior Living & Long-Term Care](#)



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What's the Discount Rate for Government Leases?

Read on for a look at determining the discount rate in GASB 87, Leases, which will be a significant area of judgment for governments.

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Questions & Answers

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