

Report to the City Of San Diego Audit Committee

- **CAFR Review Process**
- **Outside Auditor – Selection, Communications and Evaluation**

April 28, 2008

For both the CAFR review process and interaction with the Outside Auditor:

- Reviewed current Audit Committee Charter and current Audit Committee processes.
- Reviewed best practices within the GAGAS, GAAS, AICPA, IIA and ALGA standards and guidance.
- Researched current practices of other municipalities via internet, email and conversation
- Review the Ad hoc Advisory Committee's Report, the City Attorney's listing of recommended CAFR questions and the Independent Consultant's listing of recommended CAFR questions.

Best Practices Regarding the CAFR Review Process

Of the multiple sources regarding CAFR Review best practices, the following were chosen as relevant to the City of San Diego:

- Generally Accepted Government Auditing Standards (GAGAS)
- Generally Accepted Audit Standards (GAAS)
- American Institute of Certified Public Accountants (AICPA)
- Government Finance Officers Association (GFOA)
- Independence Standards Board (ISB)



Best Practices Regarding the CAFR Review Process



Audit Criteria –

Independence

GAGAS/GAAS/AICPA/GFOA

Materiality

Misstatement

New accounting principles

Significant accounting policies

Changes to accounting policies

Significant accounting adjustments

Unusual accounting adjustments

Estimates, reserves, accruals

Significant accounting adjustments

Fraud, violation of laws and abuse

Illegal acts

Transparency of footnotes & abuse

Narrative reporting (MD&A)

Description of audit procedures

performed

Auditor Recommendations

Best Practices Regarding the CAFR Review Process

Qualitative Factors -

- Difficulties encountered in performing the audit
- Disagreements with Management
- Quality of accounting department
- Quality of internal audit department
- Competency of staff
- Consultation with other accounting firms

Internal controls -

- Assessment of internal controls
- Material weaknesses

Other Guidance Regarding the CAFR Review Process

- City Attorney's CAFR Review Questions Guidance Listing
- Independent Consultant's CAFR Review Questions Guidance Listing
- Ad hoc Advisory Committee CAFR Review Recommendations Report

Other Municipalities' CAFR Review Processes



City of Austin, TX
City of Chicago, IL
City of Dallas, TX
City of Denver, CO
City of Fort Worth, TX
City of Fresno, CA
City of Indianapolis, IN

City of Jacksonville, FL
County of Orange, CA
City of Phoenix, AZ
City of San Antonio, TX
County of St. Louis, MO
City of Stockton, CA

So what did we learn?

Assessment of City of San Diego CAFR Review Process



The City of San Diego's Audit Committee
is generally following best practices
in its review of the CAFR.

Recommendation 1

Signed documentation of the CAFR-related questions should be considered as an addition to the CAFR review process and not a replacement for a strong, vigorous Audit Committee discussion.

Recommendation 2

The City of San Diego's Audit Committee's CAFR formal questioning review should also include questions to the City's Internal Auditor in addition to the questions asked of both the outside auditors and management.

Outside Auditor – Selection Best Practices



Selection Criteria –

Firm's reputation for reliability and knowledge.

Sufficient resources to perform work in timely manner.

Lead partner's overall knowledge/experience.

Ability to communicate issues and concerns to the committee.

Ability to work cooperatively with management and non-financial management while maintaining objectivity.

Firm's quality control procedures.

Provide recent firm inspections and peer reviews..

Auditor's independence and systems employed to ensure independence.

Auditor's proposed fee structure.

Outside Auditor – Communication Best Practices



Communication Criteria –

Pre-Audit Meeting

Status Update Meetings

Post-Audit Meeting

New Communication Audit Standard -

SAS No. 114 –

*The Auditor's Communication with Those Charged
with Governance*

Evaluation Criteria –

Formal evaluation:

- Provides construction feedback.
- Can openly express concerns or opportunities for further improvement.
- Opportunity for outside auditor to respond to concerns.
- Opportunity for outside auditor to share concerns.
- Strengthens the relationship and improves the audit process.

Other Municipalities' – Outside Auditor

City of Austin, TX
City of Dallas, TX
City of Denver, CO
City of Fort Worth, TX
City of Fresno, CA
City of Indianapolis, IN
City of Jacksonville, FL
County of Orange, CA
City of Phoenix, AZ
City of Stockton, CA

Recommendation 3

Communications with the outside auditor should be increased to become compliant with the new auditor communication's standards (SAS No. 114 – *The Auditor's Communication with Those Charged with Governance*, superseding SAS No. 61 – *Communication with Audit Committee*)



Recommendation 4

The City of San Diego's Audit Committee should conduct an annual formal evaluation of its outside auditor.

Thank You

WE WELCOME QUESTIONS