

## **Section 2 – Annual Financial Audit**

### **Overview**

Most local governments are required to have an independent audit of their financial statements performed in accordance with appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of public finance functions and by maintaining citizens' confidence in their elected leaders.

### **Requirements**

Section [218.39](#), F.S., requires that local governments that meet specific criteria outlined in the chapter shall have an annual financial audit of its accounts and records completed within nine (9) months after the end of its fiscal year. The annual audited financial report could also be required to include a "single audit" in accordance with OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) or s. [215.97](#), F.S., and Chapter [10.550](#), Rules of the Auditor General. The audit shall be performed by an independent certified public accountant in accordance with s. [218.39](#), F.S., and Chapter [10.550](#), Rules of the Auditor General. At the conclusion of the audit, the auditor shall discuss all comments that will be included in the audit report with management, each member of the governing body, and each member of an audit committee charged with governance.

The local government's response to the audit findings, including corrective action to be taken, must be filed with the local government's governing body within thirty (30) days after delivery of the audit findings. In addition, the audit findings and responses must be incorporated in the audit report package and submitted to the Auditor General within forty-five (45) days after the delivery of the audit report to the local government's governing body, but no later than nine (9) months after the end of the fiscal year.

Chapter 10.550, Rules of the Auditor General requires the management letter to include the following:

- (1) For counties as a whole, municipalities, and special districts:
  - (a) A statement describing the results of the auditor's determination as to whether or not the local governmental entity met one or more of the conditions described in s. [218.503\(1\)](#), F.S., and identification of the specific condition(s) met.
  - (b) A statement describing the results of the auditor's determination as to whether or not the financial report filed with the DFS pursuant to s. [218.32\(1\)\(a\)](#), F.S., is in agreement with the annual financial audit report for the current audit period and, if not, explanations of any significant differences.

- (c) The following information regarding the auditor's application of financial condition assessment procedures:
  - 1. A statement that the auditor applied financial condition assessment procedures.
  - 2. If a deteriorating financial condition(s) is noted, a statement that the local governmental entity's financial condition is deteriorating and a description of conditions causing the auditor to make this conclusion. If the auditor reported that the local governmental entity met one or more of the conditions specified in s. [218.503\(1\)](#), F.S. (see a., above), this statement shall indicate whether such condition(s) resulted from a deteriorating financial condition(s).
- (d) If appropriate, a statement indicating the failure of a special district that is a component unit of a county, municipality or special district, to provide the financial information necessary to a proper reporting of the component unit within the audited financial statements of the county, municipality, or special district. ( s. [218.39\(3\)\(b\)](#), F.S.)

(2) For water management districts:

- (a) A statement describing the results of the auditor's determination as to whether or not the district provided monthly financial statements to its governing board and posted the monthly financial statements on its web site. (See ss. [215.985\(11\)](#) and [373.536\(4\)\(e\)](#), F.S.)
- (b) A statement describing the results of the auditor's determination as to whether or not the district provided a link on its Web site to the DFS' web site to allow viewing of the district's annual financial report. (See s. [218.32\(1\)\(g\)](#), F.S.)
- (c) A statement describing the results of the auditor's determination as to whether or not the district posted its tentative and final budgets on its Web site. (See ss. [373.536\(5\)\(d\)](#) and [\(6\)\(d\)](#), F.S.)

Additionally, Chapter 10.550, Rules of the Auditor General, requires the scope of the financial audit to include an examination pursuant to *AICPA Professional Standards*, AT Section 601, promulgated by the American Institute of Certified Public Accountants, to determine the following, as applicable:

- (1) For all local governmental entities, a determination of the entity's compliance with the requirements of s. [218.415](#), F.S.
- (2) For counties that received E911 funds, a determination that all E911 fee revenues, interest, and E911 grant funding were used for payment of authorized expenditures, as specified in s. [365.172\(10\)](#), F.S., and as specified in the E911 Board grant and special disbursement programs (see s. [365.173\(2\)\(d\)](#), F.S).

- (3) For clerks of the courts, a determination of the clerk's compliance with the requirements of ss. [28.35](#) and [28.36](#), F.S.
- (4) For clerks of the courts, a determination of the clerk's compliance with s. [61.181](#), F.S.
- (5) For local governmental entities that received or expended funds related to the Deepwater Horizon oil spill, that are not Federal awards audited as major programs or State financial assistance audited as major projects: a determination of the entity's compliance with Federal and State laws, rules, regulations, contracts, or grant agreements related to the receipt and expenditure of the funds (see s. [288.8018\(1\)](#), F.S.).

Finally, the scope of the financial audit shall include a report that includes an opinion (or disclaimer of opinion) as to whether the schedule of receipts and expenditures related to the Deepwater Horizon oil spill funds is presented fairly in all material respects in relation to the financial statements taken as a whole. The report shall be prepared in accordance with *AICPA Professional Standards*, AU-C Section 725, promulgated by the American Institute of Certified Public Accountants.

### **Auditor Selection Process**

Section [218.391](#), F.S., requires specific procedures to be followed by local governments with respect to selecting an auditor to conduct the annual financial audit required by s. [218.39](#), F.S. The local government must establish an audit committee to assist in the selection process.

While the composition of the audit committee is not specifically noted in the statute, the GFOA, in its best practices, has recommended the following:

- No members should have financial management responsibilities within the local governmental entity.
- All members should possess or obtain a basic understanding of governmental financial reporting and auditing.
- The committee should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose.
- The actual audit committee membership should be comprised of the local government's governing body or a subset of the governing board.
- The minimum membership of the committee should be no fewer than three (3) members.

Considering that smaller local governments may experience difficulty in obtaining individuals with the necessary experience in governmental financial reporting and auditing, there is a small government consideration noted in the Auditor Selection Guidelines, accessible on the Auditor General's web site. The consideration is that the smaller government might consider consulting with larger governments in the area to identify employees or consultants of those governments who might be willing to work with their audit committee. Also, should the small government opt to not establish an audit committee composed of the governing body; the small government could seek to use the audit committee of the larger entity as their audit committee.

The audit committee shall perform the following functions:

- Establish factors to be used in the evaluation of audit services.
- Publicly announce requests for proposals.
- Provide interested firms with requests for proposals.
- Evaluate proposals provided by qualified firms.
- Rank and recommend in order of preference to the local government's governing body no fewer than three (3) firms deemed to be the most highly qualified to perform the required services.

If compensation is not one of the factors used by the audit committee in the evaluation of proposals, the governing body shall negotiate a contract with the firm ranked first. If the governing body is unable to negotiate a satisfactory contract with that firm, negotiations with that firm shall be formally terminated, and the governing body shall undertake negotiations with the second-ranked firm. Failing accord with the second-ranked firm, negotiations shall then be terminated with that firm and undertaken with the third-ranked firm. Negotiations with the other firms shall be undertaken in the same manner. If compensation is one of the factors used by the audit committee in the evaluation of proposals, the governing body shall select the highest-ranked qualified firm or must document the reasons for not selecting the highest-ranked qualified firm.

## **References**

Section [215.97](#), F.S.; Florida Single Audit Act

Section [218.39](#), F.S.; Annual Financial Audit Reports

Section [218.391](#), F.S.; Auditor Selection Procedures

Section [218.503](#), F.S.; Determination of Financial Emergency

Chapter 10.550, Rules of the Auditor General; Local Government Entity Audits – [http://www.myflorida.com/audgen/pages/rules\\_localgovt.htm](http://www.myflorida.com/audgen/pages/rules_localgovt.htm)

Auditor Selection Guidelines –

[http://www.myflorida.com/audgen/pages/pdf\\_files/auditor%20selection%20guidelines.pdf](http://www.myflorida.com/audgen/pages/pdf_files/auditor%20selection%20guidelines.pdf)

OMB Circulars – [https://www.whitehouse.gov/omb/grants\\_circulars/](https://www.whitehouse.gov/omb/grants_circulars/)

Government Finance Officers Association – <http://www.gfoa.org/>