

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 Section [215.97](#), F.S., and Chapter [10.550](#), *Rules of the Auditor General*. In addition, Section [163.387](#), F.S., requires separate audits of each community redevelopment agency (CRA) with revenues or expenditures and expenses exceeding \$100,000 during the fiscal year. The audits shall be performed by an independent certified public accountant in accordance with Section [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, among other things, the following:

(1) For counties as a whole, municipalities, and special districts:

- 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 Section [218.503\(1\)](#), F.S., and identification of the specific condition(s) met.

The following information regarding the auditor's application of financial condition assessment procedures:

- A statement that the auditor applied financial condition assessment procedures.
 - 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 Section [218.503\(1\)](#), F.S., this statement shall indicate whether such condition(s) resulted from a deteriorating financial condition(s).
- 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. (Section [218.39\(3\)\(b\)](#), F.S.)

(2) For water management districts:

- 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 Sections [215.985\(11\)](#) and [373.536\(4\)\(e\)](#), F.S.).
- 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 Section [218.32\(1\)\(g\)](#), F.S.).
- 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 Section [373.536\(5\)\(d\)](#) and Section [\(6\)\(d\)](#), F.S.).

(3) For special districts, data required pursuant to Sections [218.32\(1\)\(e\)](#) and [218.39\(3\)\(a\)](#), F.S. (See Chapter [10.554\(1\)\(i\)\(6\)-\(8\)](#), *Rules of the Auditor General*).

Additionally, Chapter [10.550](#), *Rules of the Auditor General*, requires the scope of the financial audit to include an examination pursuant to the American Institute of Certified Public Accountants (AICPA) *Professional Standards*, AT-C Section 315, promulgated by the AICPA, to determine the following, as applicable:

- For all local governmental entities, a determination of the entity's compliance with the requirements of Section [218.415](#), F.S.
- 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 Section [365.172\(10\)](#), F.S., and as specified in the E911 Board grant and special disbursement programs (See Section [365.173\(2\)\(d\)](#), F.S.).

- For clerks of the courts, a determination of the clerk's compliance with the requirements of Sections [28.35](#) and [28.36](#), F.S.
- For clerks of the courts, a determination of the clerk's compliance with Section [61.181](#), F.S.
- 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 Section [288.8018\(1\)](#), F.S.).
- For CRAs, with revenues or a total of expenditures and expenses in excess of \$100,000, a determination that the CRA complied with Sections [163.387\(6\)](#) and [\(7\)](#), F.S.

Finally, the scope of the financial audit shall include a report that includes an opinion (or disclaimer of opinion) as to whether any supplementary information, including 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 AICPA.

Audit Filing Requirements

The following audit report filing requirements apply:

- Department of Financial Services (DFS) filing requirements:
 - Each regional planning council created under Section [186.504](#), F.S., each local government finance commission, board, or council, and each municipal power corporation created as a separate legal or administrative entity by interlocal agreement under Section [163.01\(7\)](#), F.S., shall submit to the department a copy of its audit report and an annual financial report for the previous fiscal year in a format prescribed by the department.
 - Section [163.387\(8\)\(c\)](#), requires that audit reports for CRA audits conducted pursuant to that section be filed with the DFS.
- Auditor General filing requirements:
 - Each county, municipality, and special district required to obtain an audit pursuant to Section [218.39](#), F.S., is required to file its audit report with the Auditor General.
 - Any CRA required to obtain an audit pursuant to Section [163.387](#), F.S., is required to file its audit report with the Auditor General.

- The audit reports referenced above are required to be submitted within 45 days of delivery of the audit report to the entity's governing body or 9 months after the end of the entity's fiscal year, whichever occurs first. It should also be noted that, although the Federal Office of Management and Budget, the Government Finance Officers Association, Inc. (GFOA), and other organizations may occasionally extend their filing deadlines, insofar as the State of Florida's audit deadlines are established by statutes, those filing extensions **do not** apply to filing deadlines contained in Florida Statutes.
- Pursuant to Section [163.371\(2\)](#) a CRA is required to file an annual report with the county or municipality that created the agency. This annual report is due by March 31 of each year and the required content is described in Sections [163.371\(2\) \(a\)-\(c\)](#).
- Further, it should be noted that other entities, such as grantors and creditors, may impose additional audit report filing requirements.

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 Section [218.39](#), F.S. The local government must establish an auditor selection committee to assist in the selection process.

Auditor selection committee composition requirements:

- For counties, the committee must, at a minimum, consist of each elected county officer, or their respective designees, and one member of the Board of County Commissioners.
- For municipalities and special districts, the committee must have at least three members, and at least one member must be a member of the governing body, who shall serve as committee chair.
- No employee, chief executive officer, or chief financial officer may serve as a committee voting member; however, they may serve in an advisory capacity.

In addition, the GFOA, in its best practices, has recommended the following for audit committees, which may also apply to auditor selection committees:

- 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.

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.

The auditor selection 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 fewer than three firms respond to the request for proposal, the committee shall recommend such firms as it deems to be the most highly qualified.

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. If negotiations fail 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 [163.387](#), F.S.; Redevelopment Trust Fund

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

Section [218.32](#), F.S., Annual Financial Reports; Local Governmental Entities

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:
https://flauditor.gov/pages/pdf_files/10_550.pdf

Auditor Selection Guidelines:
https://flauditor.gov/pages/pdf_files/auditor%20selection%20guidance.pdf

OMB Circulars:
<https://www.whitehouse.gov/omb/information-for-agencies/circulars/>

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