



BUREAU OF THE
Fiscal Service
U.S. DEPARTMENT OF THE TREASURY

Financial Statement Audit Update

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Financial Statement Audit Update

- Financial Audit Background
- Fiscal Year 2016 Results
- Audit Challenges
- The Future of Audit
- Audit Risk
- Questions

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CORE 4

**“Before You’re Out the Door”
Measurable Results**

Financial Statement Audit Update

- What is the goal of a federal financial audit?
 - ❑ The purposes of performing financial statement audits of federal entities include providing decision makers (financial statement users) with assurance as to whether the financial statements are reliable [presented fairly in all material respects, in accordance with U.S. generally accepted accounting principles (U.S. GAAP)], report deficiencies in internal control, and, in certain circumstances, provide an opinion on the effectiveness of internal control, and report on noncompliance with laws and regulations tested.

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Audit Process Flow



- Test controls
- Test transactions and account balances

- Audit opinions
- Internal control findings

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Audit Definitions:

At the end of an audit, Generally Accepted Auditing Standards mandate that auditors must either express an opinion or must issue a disclaimer of opinion.

➤ Auditor Opinion

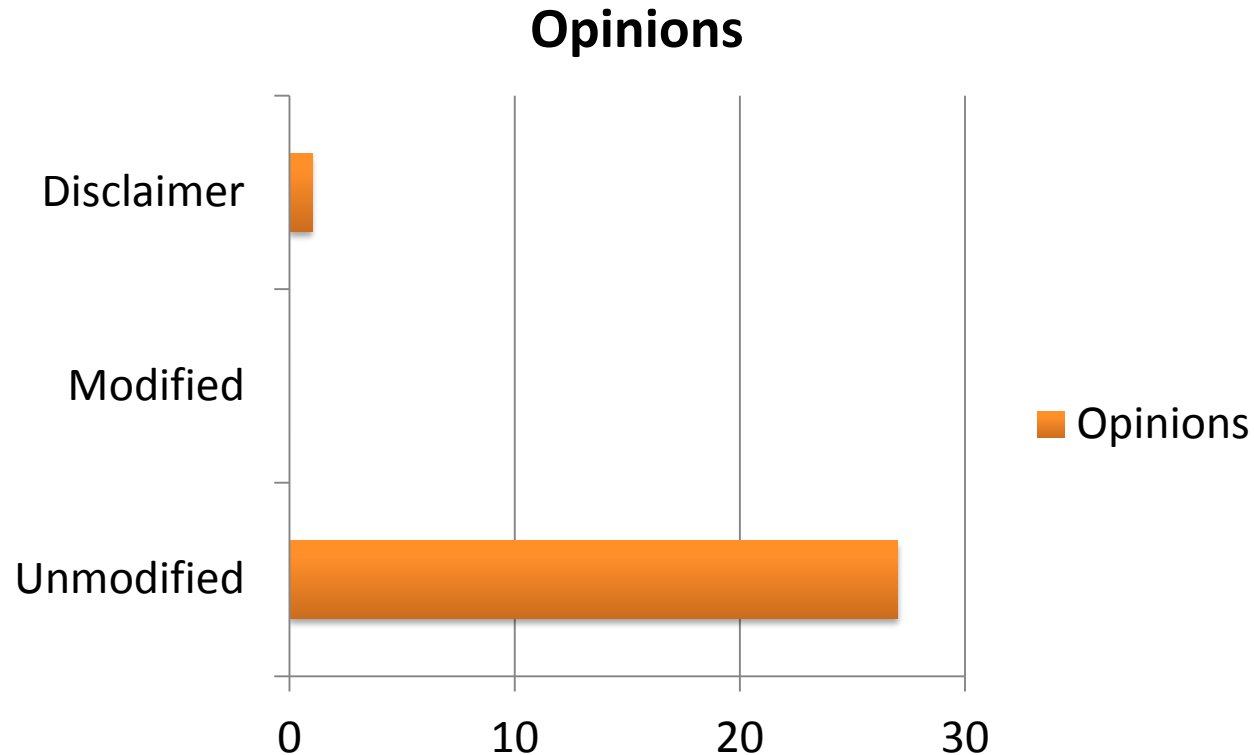
- Modified – Not so good.
- Unmodified – Awesome!

➤ Disclaimer – (Auditor gave up)

- A lack of independence, scope limitations, or material misstatements.

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Fiscal Year 2016 Final Results



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Fiscal Year 2016 Challenges

- New audit firms
- Auditor on-site access
- Customer & auditor communication
- Accrual issues
- Compliance with cutoffs and due dates
- Internal controls around system access
- Internal controls around formal reviews

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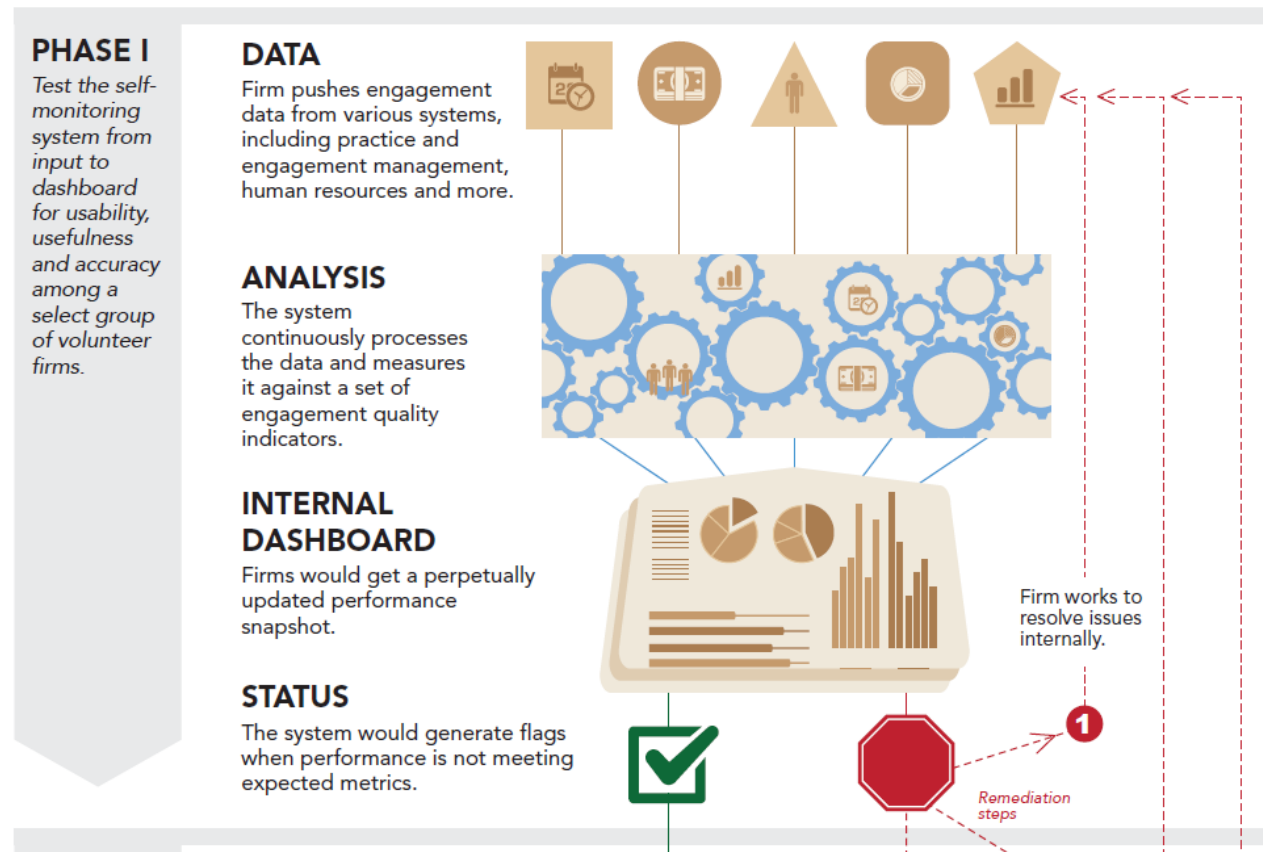
Future of Financial Audits

- Broader Audit Scope
- Performance & Comparative Analysis
- Data Analytics & 100% Transaction Testing
- Continuous Auditing Environment

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The Future of Practice Monitoring Concept



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PHASE II AND BEYOND

*Increase
the visibility
of results
to more
stakeholders.*

*System
ultimately
would
become
mandatory.*

DASHBOARDS

Beginning in Phase II, dashboards could be customized for other users, based on authorization to view certain information. Firms would continue to evaluate and remedy situations before an engagement is completed, but if issues remain, monitors would be brought in.

SEALS

An *internal seal* would show the high-level status of the firm's overall performance measures to quality control and executive management.

An *external seal* would appear on the firm's profile on the AICPA website indicating the firm's participation in the program, level of service and other details.



2



If issues persist,
AICPA-engaged
monitor helps firm.

3



If issues still persist,
external monitors
work with firm.



If all remediation steps fail, a firm's rating (indicated in the seal) could be lowered. The firm would have time to address these issues before the information is available to other users via the external seal.

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AUDIT RISK

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Audit Risk = The Risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated.

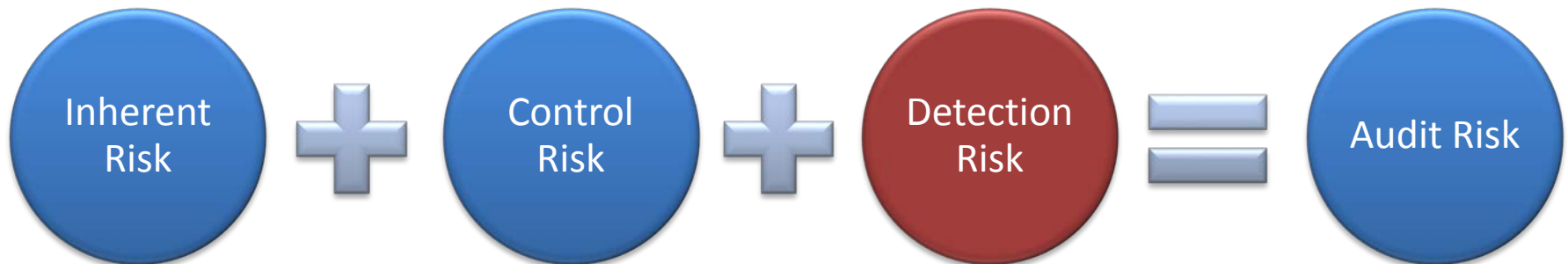
Materiality = Professional judgment of the auditor to determine the magnitude of an omission or misstatement that would influence decisions of the end user of the information.

Misstatements = Errors

- Unintentional = You made a mistake and promise not to do it again.
- Intentional = That's called fraud and you're in trouble!

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Components of Audit Risk



Inherent Risk = The risk of mistakes caused by complexity, judgment, or estimates.

Control Risk = The risk caused by the absence or failure in the operation of relevant controls of the entity.

Detection Risk = The risk that the auditors fail to detect a material misstatement in the financial statements.

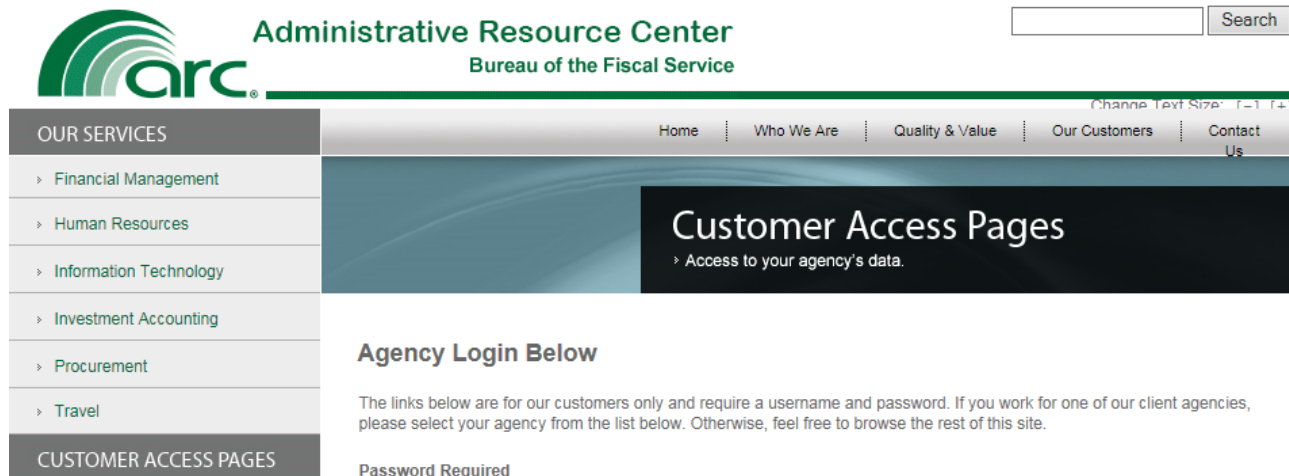
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RISK Reduction Tips FY 2017

- Complex processes or calculations should be well documented.
- Proper internal controls.
- Review and remediate issues.
- Work with your customer care accountant.

Contact Information

Primary Contact: Your Customer Care Accountant <https://arc.fiscal.treasury.gov/customer-pages/>



Secondary Contact

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