Town of Los Gatos

Presentation to The Finance Committee

August 10, 2020

Presented by: Ahmed Badawi, CPA
Audit Partner

BADAWI & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

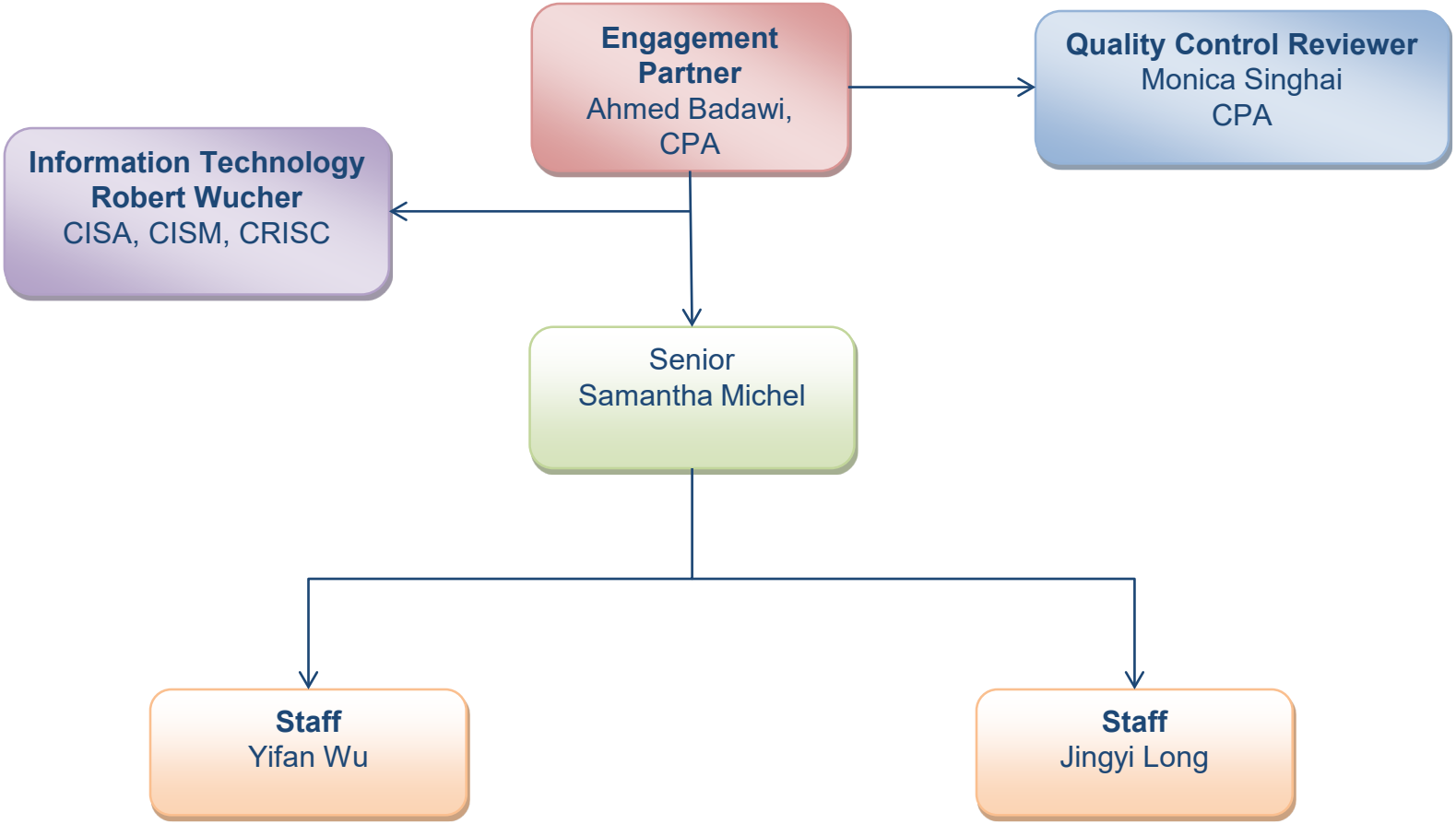
Badawi & Associates
Audit of the
Town of Los Gatos

Agenda

- Engagement Team
- Deliverables and Scope of the Audit
- Areas of Primary Audit Risk
- Approach to the Audit
- Required Communications
- New Accounting Standards
- Questions/Discussion

Engagement Team

Engagement Team



Deliverables and Scope of the Audit

- Report of Independent Auditors on Town of Los Gatos Basic Financial Statements (BFS)
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
- Report on Compliance and on Internal Control Over Compliance with Major Federal Award Programs
- Agreed-Upon Procedures Report on Appropriation Limit Schedule
- Annual State Controller's Financial Transactions Report
- Communications With Those Charged With Governance
  - Letter used to summarize communication of various significant matters to those charged with governance.

Areas of Primary Audit Risk

- The risk of management override of controls is addressed by the following procedures:
  - Assignment of audit staff based on consideration of audit risk.
  - Procedures to incorporate an element of unpredictability in the audit.
  - Consideration of the selection and application of significant accounting principles.
  - Examination of journal entries.
  - Review of accounting estimates for bias.
  - Evaluation of business rationale for unusual transactions.
  - Evaluation of the appropriateness of fraud-related inquiries performed
- Revenues & Receivables (Tax, Grants, Notes, etc): Improper revenue recognitions
  - Governmental Funds:
    - Confirm/validate property taxes, sales taxes, franchise taxes & other significant revenues/receivables.
    - Testing of licenses, permits and fees

APPROACH TO THE AUDIT

APPROACH TO THE AUDIT

- B&A's Audit Approach for all Entities:
  - Phase I - Planning
  - Phase II - Review Systems, Processes, and Preliminary Compliance and Validation Testing
  - Phase III – Final Testing of Account Balances and Compliance
  - Phase IV - Prepare Necessary Financial and Compliance Reports

Communications

Input from the Finance Committee

- What are the Finance Committee views about the following matters:
  - The appropriate person(s) in the Town's governance structure with whom the auditors should communicate for routine requests
  - The allocation of responsibilities between those charged with governance and management per the Town's code
  - The Town's objectives and strategies and the related business risks that may result in material misstatements
  - Matters the Finance Committee consider as warranting particular attention during the audit
  - Significant communications with regulators
  - Other matters the Finance Committee believe are relevant to the audit of the financial statements

Required Communications

- Our Responsibility Under U.S GAAS

- Expression of an opinion on whether financial statements are fairly stated in accordance with U.S GAAP
- Evaluate internal control over financial reporting
- Evaluate compliance with laws, contract and grants
- Evaluate the tone at the top
- Ensure financial statements are clear and transparent
- Communicate with the governing body

Required Communications

- Management Responsibility
  - Management is responsible for the financial statements
  - Establish and maintain internal control over financial reporting
  - Make all financial records available to us
  - Adjust the financial statements to correct material misstatements
  - Establish internal control to prevent and detect fraud
  - Inform us of all known and suspected fraud
  - Comply with laws and regulations
  - Take corrective action on audit findings

Required Communications

- Independence
  - It is our responsibility to maintain independence
  - We will maintain our independence by strict adherence to the AICPA and the Board of Accountancy rules and regulations
  - No other services performed that could affect our independence
- Timing of the Audit
  - Audit will be performed in the time frame communicated to the Town in our engagement letters

New Accounting Standards

2020

- Statement 95 – Postponement of the Effective Dates of Certain Authoritative Guidance

2021

- Statement No. 84 – Fiduciary Activities
- Statement No. 90 – Majority Equity Interests
- Statement No. 93 – Interbank offered rates (except LIBOR removal and lease
- modifications)

2022

- Statement No. 87 – Leases
- Statement No. 89 – Construction-period interest
- Statement No. 92– Omnibus (multiple effective date)
- Statement No. 93 – LIBOR removal and lease modifications
- Statement No. 97 – Certain component unit criteria, and accounting and financial reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

2023

- Statement No. 91 – Conduit debt
- Statement No. 94 – Public-private partnerships
- Statement No. 96 – Subscription-based information technology arrangements

Questions

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Thank You
For Allowing Us to Provide Audit Services to the Town of Los Gatos