NEWSLETTER NO. 34

VERIFICATION AND ATTESTING
- WORKING WITH YOUR AUDITOR

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The reporting on tangible capital assets will appear in your financial statements. The information is supposed to be presented after the auditor's report, so that the implication is that your numbers are your best estimate of costs based on assumptions that reflect the most probable set of economic conditions and planned courses of action. (PS 2130 – Measurement Uncertainty).

Your auditor will also want to know that your information is complete. The 2009 statements will present some totally new and different financial data. There will be modifications to existing statements and the introduction of two new statements – the **Statement of Changes in Net Debt/Financial Assets** and the **Statement of Operations** (both replacing the old Statement of Financial Activities).

How will you get your auditor to deal with all this, and give you an unqualified audit opinion? This newsletter will provide suggestions on how to achieve this.

Excellent information on this information can also be found in chapter 9 of the Guide to Accounting and Reporting Tangible Capital Assets prepared by Public Sector Accounting Group of the CICA. There you will find information on such topics as:

- Preparing for the external audit
- Management's responsibilities
- Evidence needed to support opening balances
- Financial statement disclosures, and
- Common pitfalls to avoid.

Verification and Attesting

Your tangible capital assets will be reported upon in your municipality's financial statements. That means that a reader of your financial statements will expect that your TCA reporting will be reasonable, prepared on a consistent basis, and disclose anything material.

The information presented will appear in the financial statements section of your annual report. As a result, the auditor's letter will attest that the information presented does represent the whole story, unless there is a qualification. If the auditor's letter is unqualified, the reader can reasonably assume that the information presented fairly reflects the current value of your tangible capital assets, as of the end of the fiscal years presented, and of TCA acquisitions and disposals during the fiscal years presented.

To be able to give an unqualified audit opinion, your auditor will have to verify the TCA numbers presented as part of the annual audit. This will be a major concern with respect to the asset inventory valuation as of January 1, 2009, but it will become part of the annual audit.

It is never too early

The auditor will not tell you what to do, or how to do it, but will (or should) confirm that:

1. your assumptions are tenable;
2. your approaches are reasonable from an audit perspective;
3. any major decisions that you made are acceptable; and
4. your accounting policies are consistent with good TCA accounting practice.

Involve your auditor as early as possible, as you don't want any nasty surprises down the road. Discuss your planning and approaches before you begin. Ask your auditor to identify any concerns that he/she may have with how you want to proceed. At key decision points and ends of major phases, seek an independent opinion of what you have decided and of what you have accomplished. Like a good thesis supervisor, your auditor should be able to guide your progress, so that your "thesis", your financial statements, will "pass." Look on this early and on-going involvement with your auditor as insurance. It is better to pay for a billable hour now, than to find out later that 3 months of work that you did doesn't pass muster.

There is another reason for seeking early involvement. This accounting change is also a major challenge for auditors, as there will not always be a complete audit trail for the TCA numbers being presented, some of which will be based on estimates or appraisals, rather than historical records. PS 3150.46 allows for this as a transitional provision, but an appraisal or estimate is still an educated guess, and therefore debatable, whereas historical cost is not. How defensible will your educated guesses be, and how understanding will your auditor be of your methodologies?

Initial Feedback

Because the initial valuation of your asset inventories will appear in your financial statements, the figures will be subject to audit. Your auditor will be seeking to confirm that:

1. you have included all appropriate tangible capital assets;
2. you have not excluded assets whose aggregate value may be a material amount;
3. you have valued each asset in a reasonable manner, when historical cost is not available; and
4. you have amortized each asset appropriately.

Your initial asset inventories will be audited once for completeness and accuracy. They will be given close scrutiny, as you are effectively creating and tracking data that did not exist before, and which you did not capture for financial reporting in this way. The initial valuation is also the foundation stone for all future reporting.

Please do yourself and your auditor a favour. Try to undertake this audit of your initial asset inventories as soon as possible, preferably between late May and October (this year or next), when neither of you are dealing with year-end. Have it as a related but separate audit assignment. Invite your auditor to work on program inventories as they are completed, rather than wait until everything is finished.

This will be a learning process for both of you. Issues or concerns may arise from auditing the first program that you can address when completing inventories for your other programs, thereby facilitating their audit later on.

What about billable hours?

This may truly be a case of "pay me now, or pay me later", and where an ounce of prevention can save you a pound of cure. Again, look on this as insurance. Your auditor does not want a difficult or unsatisfactory audit any more than you do. It is in the interest of both of you to have a meeting of minds on issues that arise. This will be much more likely if you do it before, rather than after the fact.

The 2009 Audit

Your 2009 financial statements will have TCA financial information for the first time. The expectation is that you will provide comparative information for the previous year, as you currently do. The audit opinion will be based on three components:

1. the starting value of your tangible capital assets – this has been discussed earlier;
2. changes which occurred during 2009; and
3. restatement of the 2008 figures

Tangible capital assets will be an area of concern, whereas traditional Capital Fund expenditures will not be. The 2009 audit will certainly focus on:

- Are you following your TCA accounting policies? (**Note**: You may have different policies for your initial inventory and valuations, as opposed to what you need for on-going operations).
- Have you capitalized all appropriate acquisitions?
- Have you recorded all dispositions, and accounted for them appropriately?
- Have you recorded all write-downs correctly, and not recorded any write-ups?
- Has amortization been appropriately calculated and expensed for the year?
- Have you capitalized only those other costs that are directly attributable to the acquisition of a tangible capital asset? and
- Do your notes cover everything that a prudent reader of your statements may want to know about?

This really is not very different from current audit practice, when looking at Revenue and Capital Fund operations.

Restatement of the 2008 figures may be a challenge, if you did not start accounting for tangible capital assets as of January 1, 2008. This should be the topic of another meeting with your auditor, as to how to address this requirement for comparative figures appropriately. This really means that your inventories should be valued as of December 31, 2007, with additional, disposals and write-downs tracked and valued for fiscal 2008, in order to provide previous year's comparative figures for 2009. Much can be estimated or approximated, but you may not have usable data on disposals in 2008, or on write-downs, and changes to work-in-progress. Come to some agreement with your auditor as to how much latitude you have for this transition year. Come 2010, this will be a non-issue.

The 2010 Audit

If the 2009 audit went well, and you received an unqualified opinion on your statements, the 2010 audit will likely be quite straightforward, like any other year. Your carry-forward numbers from December 31, 2009 will have already been verified, and deemed to be reasonable and acceptable. The audit concern will be with what happened in 2010, and do your statements reflect that? This is no different from what happened in 2009.

The asset inventory valuations would likely not be an audit issue, though it is very conceivable that occasionally in future years, your auditor may want to test that if your inventory indicates that you have 7 doodads on hand and in use, that you really do have that number, and not 6 or 8. For that possibility, you may want to have your TCA documentation fairly accessible, and certainly to retain it for at least 6 years after you dispose of the asset.

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Our next newsletter will take another look at asset pools, and discuss some of the more technical issues relating to their use, especially on-going accounting.

For more information and resources regarding tangible capital asset management, go to PSAB/Asset Management or contact:

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