



# City of Cupertino

6/30/2021 Planning Communications

Audit Committee Introduction

April 26, 2021



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# Introduction to Crowe LLP Audit Team

Role	Name	Definition of Role
Audit Partner	Kathy Lai, CPA, CGMA	Mrs. Lai is the auditor in charge and the partner signing the opinion on your financial statements.
Audit Relationship Partner – National Government Leader	Kevin Smith, CPA	Mr. Smith is will work with our engagement team to understand your expectations and ensure that your needs are met through the delivery of our services.
Audit Senior Manager	Matthew Geerdes, CPA	Mr. Geerdes will oversee the execution of the audit, focusing on overseeing engagement management as well all accounting and financial reporting matters.
IT Audit Senior Manager	Rod Zellner, CISA	Mr. Zellner will oversee the execution of the IT aspects of the audit, focusing on overseeing IT engagement management as well all IT audit reporting matters.

# Introduction to Crowe LLP Audit Team

Role	Name	Definition of Role
Engagement Quality Reviewer	Tony Boras, CPA	Mr. Boras will perform the pre-issuance review and provide technical guidance on governmental accounting and auditing issues.
Audit Senior Staff	Kathleen San Andres	Ms. San Andres will serve as the on-site project leader. She will assist in directing the staff and specialize in the timely completion of all deliverables.



# Engagement Objectives, Planned Audit Deliverables and Timeline





# Engagement Objectives

- The objective of an audit of financial statements is to express an opinion that the financial statements are in accordance with accounting principles generally accepted in the United States.
- The audit of financial statements will be performed in accordance with auditing standards generally accepted in the United States (GAAS) and generally accepted Government Auditing Standards (GAGAS).
- Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement whether caused by error or fraud.
- Our audit includes consideration of internal controls over financial reporting, but we do not express an opinion on the effectiveness of such internal controls.



# Planned Audit Deliverables

Service	Deliverable
Audit of the City's basic financial statements	Crowe's audit report on the comprehensive annual financial report
Communication of internal control deficiencies and other matters.	Crowe's management letter
Communication of audit results to the City Council	Crowe's SAS 114 letter
Agreed-upon procedures on the City's investments	Crowe's report on the Investment AUP
Audit of the Schedule of Expenditures of Federal Awards and related compliance testing (if necessary)	Crowe's report on the Single Audit (if necessary)
Audit of the financial statements of the City's TDA and compliance	Crowe's report on the TDA
Audit of the revenues, expenditures and related compliance with Proposition 111	Crowe's report on Proposition 111 AUP (GANN)
Preparation of the annual filing of financial information with the state of California	Crowe's report on the State Controller's Report

# Planned Audit Timeline

Activity	Planned Date
Introduction Meeting with Audit Committee	April 26, 2021 (actual)
Completion of Requested Interim Information into Crowe Exchange by Crowe	May 21, 2021
Completion of Initial Requested Year End Information into Crowe Exchange by Crowe	July 30, 2021
Interim Controls Testing, AUP and IT Audit testing	Week of June 7, 2021
Completion of Supplemental Requested Year End Information into Crowe Exchange by Crowe	August 13, 2021
Year-end Testing	Weeks of September 6 and September 13, 2021
Update Meeting with Audit Committee	TBD
Deliver Draft Management Letter and Letter of Required Communications to Those Charged with Governance/the Audit Committee	November 5, 2021
Deliver Draft of the Investment AUP Report	November 5, 2021



# Planned Audit Timeline

Activity	Planned Date
Deliver Draft of the TDA Report	November 5, 2021
Deliver Draft of the Proposition 111 (GANN) AUP Report	November 5, 2021
Deliver Draft of the Single Audit Report (if necessary)	November 30, 2021
Deliver Draft of the State Controller's Report	TBD
Deliver Draft of Comprehensive Annual Financial Report	TBD
Conduct Exit Meeting with Management and Review Management Comments	TBD
Conduct Exit Meeting with Audit Committee and Review Audit Committee Comments	TBD
Finalize All Audit Reports	TBD
Finalize Management Letter and Letter of Required Communications to Those Charged with Governance/the Audit Committee	TBD

# **SAS 99 Communications**

# SAS 99 Communications

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## Auditor's responsibilities under Generally Accepted Auditing Standards

- The auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
- The auditor is responsible for performing the audit in accordance with generally accepted auditing standards
- The design of the audit is to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.



# SAS 99 Communications

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## Auditor's responsibilities under Generally Accepted Auditing Standards

- An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting.
- The auditor is responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Generally accepted auditing standards do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance.
- When applicable, the auditor is also responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement.

# SAS 99 Communications

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## Auditor's responsibilities under Generally Accepted Auditing Standards

- Certain information prepared by management that will accompany the audited financial statements will not be subjected to the auditing procedures applied in the audit of the basic financial statements and therefore we will express no opinion on this information. This includes the supplemental information included in the statements after the notes to financial statements.
- We will review the concept of materiality in our planning and will consider the internal control structure in determining our amounts.
- We will address the significant risks of material misstatement, whether due to fraud or error during our planned testing procedures.

# SAS 99 Communications

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## Auditor's responsibilities under Generally Accepted Auditing Standards

- Internal control and the results of internal control testing will be a factor in determining the substantive testing performed.
- Whenever Crowe has determined that there is evidence that fraud may exist, that matter will be brought to the attention of an appropriate level of management. Fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements will be reported directly to those charged with governance.



# SAS 99 Communications

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## Fraud Risk Factors

- During the course of our audit, we make assessments of various business, fraud and IT controls risk factors and tailor our audit procedures such that areas representing higher risk receive appropriate audit emphasis.
- Consideration of fraud risk factors is required by Statement on Auditing Standards No. 99 (SAS No. 99) “Consideration of Fraud in a Financial Statement Audit”, which discusses three conditions that are generally present for fraud to occur:
  - Management or employees have incentives or feel pressure to commit fraud.
  - Opportunity exists through controls being absent, weak or overridden.
  - Rationalization due to attitudes or pressures.

# SAS 99 Communications

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## Fraud Risk Factors

- SAS No. 99 requires specific information gathering procedures to be performed by the auditor. The audit team is required to brainstorm for areas where the organization is at risk of fraud. Additionally, specific inquiry of management and the Audit Committee or Board of Directors related to their knowledge of suspected fraud is also required as is inquiry and discussions with others in the organization regarding suspicion of fraud. Directly resulting from these information gathering procedures and discussions is the identification of material fraud risk factors, which require additional procedures to be performed by the auditor to address such identified risk factors.

# **Significant New GASB Pronouncements**





# Effective Dates: June 30<sup>th</sup> FYE

## 2021

- Fiduciary Activities (**GASB Statement 84**)
- Majority Equity Interests (**GASB Statement 90**)
- Replacement of Interbank Offered Rates (**GASB Statement 93, except for paragraph 11b in FY2022**)
- Implementation Guide 2019-1 (**Update**)
- Implementation Guide 2019-2 (**Fiduciary Activities**)

## 2022

- Leases (**GASB Statement 87**)
- Accounting for Interest Cost Incurred Before the End of a Construction Period (**GASB Statement 89**)
- Omnibus 2020 (**GASB Statement 92, Paragraphs 4, 5, 11, and 13 were effective upon issuance Feb 4, 2020**)
- CCUC and Section 457 Plans (**GASB Statement 97**)
- Implementation Guide 2019-3 (**Leases**)
- Implementation Guide 2020-1 (**Update**)

## 2023

- Conduit Debt Obligations (**GASB Statement 91**)
- Public Private Partnerships and Availability Payment Arrangements (**GASB Statement 94**)
- Subscription-Based Information Technology Arrangements (**GASB Statement 96**)

# Significant New GASB Pronouncements

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- FY21 - GASB Statement 84 – *Fiduciary Activities*
  - Previously required for FY20, now required for FY21 due to GASB Statement 95
  - Establishes the framework for reporting for City's Fiduciary Activities
    - Focus on whether the City is controlling the assets of the Fiduciary Activity and the beneficiaries of the Fiduciary Activity
  - Requires reporting of Fiduciary Activities in a Fiduciary Fund when certain criteria are met
  - Requires presentation of a Statement of Fiduciary Activities and a Statement of Changes in Fiduciary Net Position

# Significant New GASB Pronouncements

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- FY21 - GASB Statement 84 – *Fiduciary Activities*
  - Establishes 4 types of Fiduciary Funds:
    - Pension and OPEB Trust Funds
    - Investment Trust Funds
    - Private Purpose Trust Funds
    - Custodial Funds
- Changes to the City's financial statements:
  - Requires an evaluation of all Fiduciary Activities to determine if current presentation is still valid
    - OPEB Trust (currently a fiduciary component unit)
    - Section 115 Trust (currently reported as part of the General Fund)
    - Building Deposits Payable (currently reported as part of the General Fund)



# Questions?



# Crowe Public Sector Series- We Rise Up



We hope you join us at our three-day, five-part series designed around your public sector needs in our current environment.

On day one, hear from our keynote speaker, **Kimberly Ellison-Taylor**, who will **inspire you to “Rise Up”** as she shares the challenges she faced as she navigated throughout her career in the accounting and technology industry.

We’ll cover the current state of governmental organizations in the post COVID world. **There will be discussions on the latest cybersecurity trends, managing the complexities of grants, GASB implementations of fiduciary activities, leases and upcoming standards.**

Browse the website for more information on the presentations, our speakers, then click the register button for a quick, easy, and best of all, **FREE registration!**

## Dates/times (all times Eastern)

### General Session:

*April 20, 2021*

We Rise Up: 2:00 p.m. – 5:00 p.m. ET

### Breakout Sessions:

*April 21, 2021*

Solving the Fiduciary Identity Crisis – GASB 84 Implementation and Other Updates: 2:00 p.m. – 3:00 p.m. ET

What you need to know about recent and upcoming new FASB standards: 3:00 p.m. – 4:00 p.m. ET

*April 22, 2021*

A New Lease on Life – Prepping for GASB 87: 2:00 p.m. – 3:00 p.m. ET

Implications of a COVID Environment: 3:00 p.m. – 4:00 p.m. ET





# Thank you

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