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## Policy 1310 – Assessment Audits of Small Local Governments

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### **BACKGROUND**

Our Office has statutory authority (RCW 43.09 and RCW 43.88.160) to audit financial information and compliance with state, federal and local laws on the part of all local governments and all state agencies. Under this authority, we conduct assessment audits for small local governments. These audits are unique in that they are not required to follow professional auditing standards although the general standards in Government Auditing Standards have been fully incorporated as policy for all engagements. As shown in Audit Policy 1210, Exhibit 1, we define small local governments as school districts less than 250 full-time students and other local governments with \$300,000 or less in annual revenues.

For low-risk small local governments, our Office conducts limited-scope assessment audits using information from the local government's annual report and other requested information. This work typically is done off-site to help minimize audit costs. For local governments that report no financial activity, our Office conducts an assessment audit with specific no activity procedures using information from the local government's annual report and other requested information.

### **REQUIREMENTS**

- ✓ 1. **Assessment audits are performed on low-risk small local governments designed to detect and respond to areas of significant risk.**

In general, small local governments have difficulty establishing preventative controls such as proper segregation of duties because of limited staffing. When possible, our audits of these local governments should be substantive in nature. A risk-based approach is used, which includes an analytical review of all revenues and expenditures and further testing of high-risk transactions. Assessment audits of small local governments will be conducted using the approved audit program available in the TeamStore.

Auditors will perform the following planning procedures to identify and evaluate assessment audit risks:

- Review applicable planning guides.
- Review meeting minutes of the governing body.
- Gain an understanding of the entity and its control environment.
- Review the prior audit, the future audit work file (FAWF) and citizen hotline referrals, as applicable.
- Perform planning analytical procedures.
- Conduct baseline testing and consider additional risks based on planning risks identified.

- ✓ 2. **Auditors will obtain reasonable assurance that evidence is sufficient and appropriate to support conclusions as a result of the audit and documented in TeamMate.**

Auditors use their professional judgment in evaluating the sufficiency and appropriateness of evidence. Refer to Audit Policies 3210 and 3310. Any audit issues identified as a result of the audit should be reported in accordance to Policy 2310.

- ✓ 3. **Phone or email contact with the audit liaison may be done in lieu of a formal entrance or exit conference.**

Auditors use judgment to determine the nature and extent of communication with the local government and its governing body based on circumstances and potential audit issues.

- ✓ 4. **Supervisors will monitor audit progress as necessary throughout the audit. Audit planning, baseline testing and any additional testing performed will be reviewed by the supervisor prior to communicating any results through exit communications.**

The nature, timing and extent of the review are determined by the size of the audit, nature and complexity of the work and qualifications of the audit team. Due to the small low-risk nature of assessment audit clients, supervisory review can be conducted at the conclusion of the audit unless the auditor identifies significant concerns that require further expanded testing. Refer to Audit Policy 3160.

- ✓ 5. **The audit manager or program manager must approve any onsite work needed to follow up on identified risk(s).**

The manager must approve the scope and budget for the additional work. Upon approval, the audit team will notify the local government of the need for additional work and ensure the budget is approved by the appropriate assistant director and updated in the BUCO.

Depending on the risks identified and the results of the on-site audit work, the manager will work with the appropriate assistant director to determine whether to schedule a regular on-site accountability audit for future audit periods.

- ✓ 6. **If a small local government does not submit an annual report with all required schedules, the Office will determine whether to issue a Report on Unauditable Government under Audit Policy 1330 or recommend scheduling an on-site audit.**

Auditors will make reasonable attempts to contact government officials before obtaining approval to perform the unauditable government procedures.

If the manager determines that an on-site accountability audit can reasonably be conducted, the assigned assistant director will make the final decision and work with the manager to decide when the audit will be conducted. The assistant director also will determine whether and for how long the entity will receive an on-site accountability audit rather than an assessment audit for future periods.

- ✓ 7. **If a small local government submits an annual report that certifies it had no financial activity during the audit period, we will perform a no activity assessment audit using the approved program in TeamMate.**

Auditors are required to complete an Assessment Audit using the no activity testing strategies in TeamMate, before issuing an Assessment Audit Report. Governments with no financial activity may still be active and subject to compliance requirements that should be reviewed, such as open public meetings requirements. These procedures are intended to identify and address specific compliance risks.

If the local government's annual reports showed it had no financial activity for one or more years during the audit period, but had financial activity for other years, auditors will conduct the applicable Assessment Audit procedures for the year(s) for which the entity reported having financial activity, and conduct the no activity procedures for the other year(s).

- ✓ 8. **Audit results will be reported according to the guidelines provided in the Audit Reporting Standards Manual.**

Refer to the templates for Assessment Audit Reports and Reports on Unauditable Governments.

## ***RELATED POLICIES***

1210 – State and Local Government Audits  
1220 – Engagement Cost Management  
1330 – Reports on Unauditable Governments  
2310 – Reporting Identified Audit Issues  
3110 – Independence and Ethics  
3310 – Standards for Documentation  
3160 – Supervision and Review  
3210 – Audit Evidence