Auditor’s Report on Internal Control and Compliance

Auditors are not required to, and do not, issue an opinion on internal control. However, they are required by standards to consider the entity’s system of internal control in planning and performing the audit of the financial statements and to report material and significant deficiencies in controls. Likewise, they must report deficiencies in compliance with laws, regulations, contracts, and grant agreements. Accompanying the report on internal control and compliance are the auditor’s findings and recommendations relating to material and significant deficiencies identified with respect to internal controls and compliance.

Supplementary Information

This is presented in the report for additional analysis and is not a part of the basic financial statements. However, certain supplementary information, such as the Schedule of Expenditures of Federal Awards, is required by standards. Supplementary information is included in the audit report following the footnotes to the financial statements and before the auditor’s report on internal control and compliance.

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Yap State Public Auditor

Understanding Audits of Financial Statements

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We strive for the highest quality output for the performance of our government to service and lead those who shall hold it accountable

What is an audit?

Audits are independent assessments of the stewardship, performance, and cost of government policies, programs, and operations. The two principal types of governmental audits are financial and performance. A financial audit is an examination leading to an expression of an opinion on the financial statements.

Financial audits are conducted by outside Certified Public Accountants (CPAs) and the Public Auditor. Performance audits usually measure the economy and efficiency of a program or operations. Performance audits are conducted by the Public Auditor.

Guide to Financial Statements

The audit report consists of the following sections: (1) auditor's opinion; (2) Management's Discussion and Analysis; (3) financial statements and footnotes; (4) auditor's report on internal control and compliance; (5) supplementary information.

Audit Opinion

The auditors render an opinion on the financial statements. In a qualified or "clean" opinion the auditors are stating the financial statements are fairly stated in all material respects. This is the standard report. Auditors may qualify their opinion if there are departures from accounting principles or scope limitations. Other modifications to the standard report include a disclaimer, in which the auditor is not rendering an opinion and takes no responsibility for the fairness of the financial statements, and adverse opinions. Although they are rarely given, an adverse opinion is given when auditors are unable to obtain sufficient and appropriate audit evidence.

Management Discussion and Analysis (MD&A)

This section is written by management and provides a narrative explanation of the government entity's financial performance. Though not a part of the basic financial statements, MD&A is required. Trends, events, or uncertainties that could have a material effect on the financial statements are required to be disclosed. MD&A is intended to help users of the audit report see the entity through the eyes of management.

Financial Statements

There are three main financial statements. They are (1) statement of net assets; (2) statement of activities; and (3) cash flow statement. The statement of net assets shows the financial position of the entity and is a snapshot of its assets, liabilities, and net assets at the end of the reporting period. Assets are things the government owns that have value, and include both physical property like equipment and inventory and things that can't be touched, such as trademarks and patents. Liabilities are amounts the organization owes to others. This can include all kinds of obligations, like money owed to a bank, rent for use of a building, money owed to suppliers, or payroll an entity owes to its employees. Net assets is the difference between assets and liabilities. For a company, this would be referred to as equity or net worth.

The statement of activities shows how much revenue the entity earned over a specific time period, usually a year. It also reflects the costs and expenses associated with earning that revenue. The "bottom line" of the statement shows the entity's net earnings or loss. The statement of activities is like a set of stairs, with revenues at the top. Each step down you subtract from revenue.The next step down is operating expenses. These are the direct expenses that go toward supporting the entity's operations for a given period.

The statement of cash flows reports the inflows and outflows of cash. This is important because an entity needs to have enough cash on hand to meet its obligations. A cash flow statement shows changes over time rather than absolute dollar amounts at a point in time.

Footnotes

The footnotes follow the financial statements and are packed with information. They provide insights intothe details of the financial statementsand are extremely important in helping to understand the numbers. Much of the information contained in the footnotes is there because standards require its disclosure.