



cutting through complexity

City of Roanoke and Related Entities

Fiscal Year 2013

Audit Committee Planning Meeting

June 5, 2013

kpmg.com

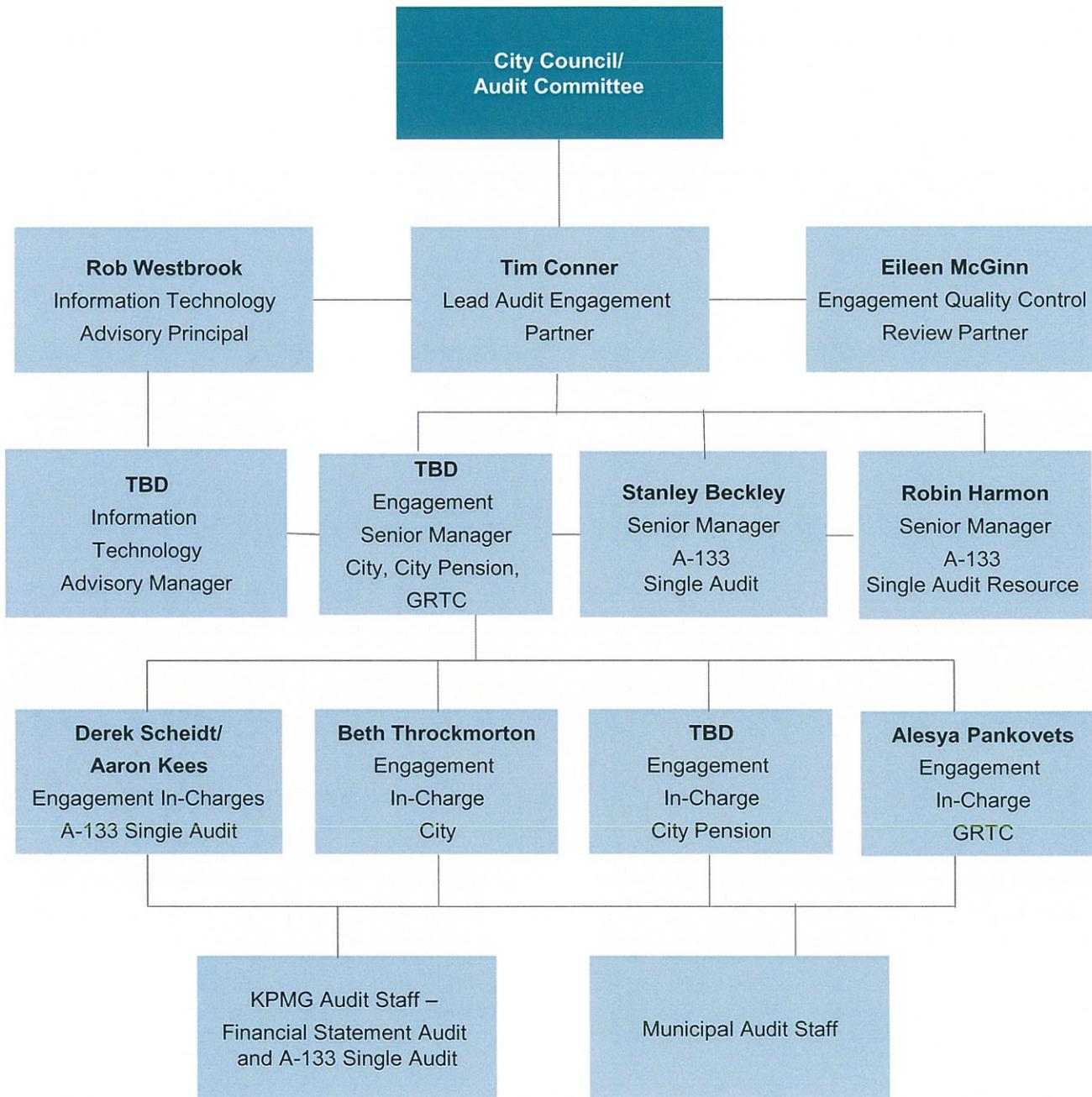
Planning meeting agenda

Audit Plan for the fiscal year ending June 30, 2013:

- Engagement team
- KPMG's audit responsibility
- Management responsibilities
- Entities subject to audit and reporting
- Engagement timetable
- KPMG's technology-enabled audit workflow
- New accounting pronouncements
- New auditing standard
- Significant audit areas
- A-133 Single audit
- Other planning matters

Engagement team

KPMG's Engagement Team for Fiscal Year 2013



KPMG's audit responsibility

Financial Statement Audit:

KPMG LLP (KPMG) will perform full scope audits in accordance with auditing standards generally accepted in the United States of America; Governmental Auditing Standards, issued by the Comptroller General of the United States; and *Specifications for Audit of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia (APA), where applicable, of the following entities' financial statements and notes to the financial statements for the fiscal year ending June 30, 2013:

- City of Roanoke, Virginia (City)
- City of Roanoke Pension Plan (Pension Plan)
- Greater Roanoke Transit Company (Transit Operations or GRTC)

Our responsibility under professional standards is to form and express opinions on the financial statements of the City, which have been prepared by management with the oversight of the Audit Committee, based on the following:

- Obtaining reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- Considering internal control over financial reporting as a basis for designing our auditing procedures, not to express an opinion on the effectiveness of internal control.
- Determining whether the financial statements are fairly presented, in all material respects, in accordance with U.S. GAAP.

OMB Circular A-133 Audit (Single Audit)

- We will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133) for the fiscal year ending June 30, 2013.

KPMG's audit responsibility, continued

Our Responsibility to Communicate with Those Charged with Governance

- We will communicate, in writing, material weaknesses or significant deficiencies to the audit committee to the extent they come to our attention.
- We will report to the audit committee, in writing, the following matters:
 - Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
 - Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditors' report, and the effect of uncorrected misstatements related to prior periods.
 - Significant difficulties and disagreements with management, if any, encountered during our audit.
 - Other matters required to be communicated by auditing standards generally accepted in the United States of America.

Management responsibilities

- Responsible for the preparation and fair presentation, in accordance with U.S. GAAP, of the financial statements and all representations contained therein.
- Responsible for compliance with laws and regulations applicable to the City's activities, and for informing us of any known material violations of such laws and regulations.
- Responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud.
- Responsible for informing us, of which it has knowledge, of all material weaknesses or significant deficiencies in the design or operation of such controls.
- Responsible for providing us with : i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audit; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon.

Entities subject to audit and reporting

The following deliverables are expected to be issued as a result of services provided to the City and its related entities:

City of Roanoke, Virginia

- Comprehensive Annual Financial Report, with Independent Auditors' Reports Thereon
- A "lifttable" independent auditors' report on the financial statements of the City for use in any bond offerings
- Written communications of significant deficiencies or material weaknesses, if any, in accordance with Statement on Auditing Standards No. 115 to be presented to management and the Audit Committee
- Written communications in accordance with Statement on Auditing Standards No. 114 to be presented to the Audit Committee
- A Management Letter
- Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for the City
- Independent Auditors' Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts, and Grants for the City

- Report on Applying Agreed-upon Procedures for Comparative Report Transmittal Forms

Greater Roanoke Transit Company (GRTC) – Transit Operations (discretely presented component unit)

- Financial Statements, with Independent Auditors' Reports thereon
- Written communications of significant deficiencies or material weaknesses, if any, in accordance with Statement on Auditing Standards No. 115 to be presented to management and the Board of Directors
- Written communications in accordance with Statement on Auditing Standards No. 114 to be presented to the Board of Directors
- A Management Letter

City of Roanoke Pension Plan

- Financial Statements, with Independent Auditors' Report thereon
- Written communications of significant deficiencies or material weaknesses, if any, in accordance with Statement on Auditing Standards No. 115 to be presented to management and the Board of Trustees
- Written communications in accordance with Statement on Auditing Standards No. 114 to be presented to the Board of Trustees

Entities subject to audit and reporting (continued)

School Board of the City of Roanoke (discretely presented component unit)

- Consistent with the prior fiscal years, the School Board's financial statements will be audited by other auditors as of and for the year ending June 30, 2013.
- Our opinions, insofar as they relate to the amounts audited by other auditors included for the School Board will be based solely on the report of the other auditors.

Civic Facilities Fund

- Consistent with the prior fiscal years, we will not audit certain operations of the Civic Facilities fund, a major enterprise fund included in the business-type activities of the City, as of and for the year ending June 30, 2013.
- Those operations will be audited by other auditors, and our opinions, insofar as they relate to the amounts audited by other auditors included for the Civic Facilities fund will be based solely on the report of the other auditors.

Engagement timetable

Planning, Interim Fieldwork, and KPMG Information Risk Management (IRM) Review of City Information Technology Controls

- April to July 2013

Single Audit Testwork and Reporting

- April to November 2013

Final Fieldwork and Reporting

- August to late November 2013
- Report drafts reviewed in late October/early November 2013
- Final reports and letters by end of November 2013

Graphically, our scheduled timeline for interim, single audit and final procedures is as follows:

	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
City of Roanoke and City of Roanoke Pension Plan									
Planning and Interim	←————→								
Single Audit	←————→								
Final audit procedures and reporting							←————→		
Present reports to the Audit Committee									●
Greater Roanoke Transit Company									
Planning and Interim			←————→						
Single Audit			←————→						
Final audit procedures and reporting					←————→				
Present reports to the Board of Directors									●

Key:

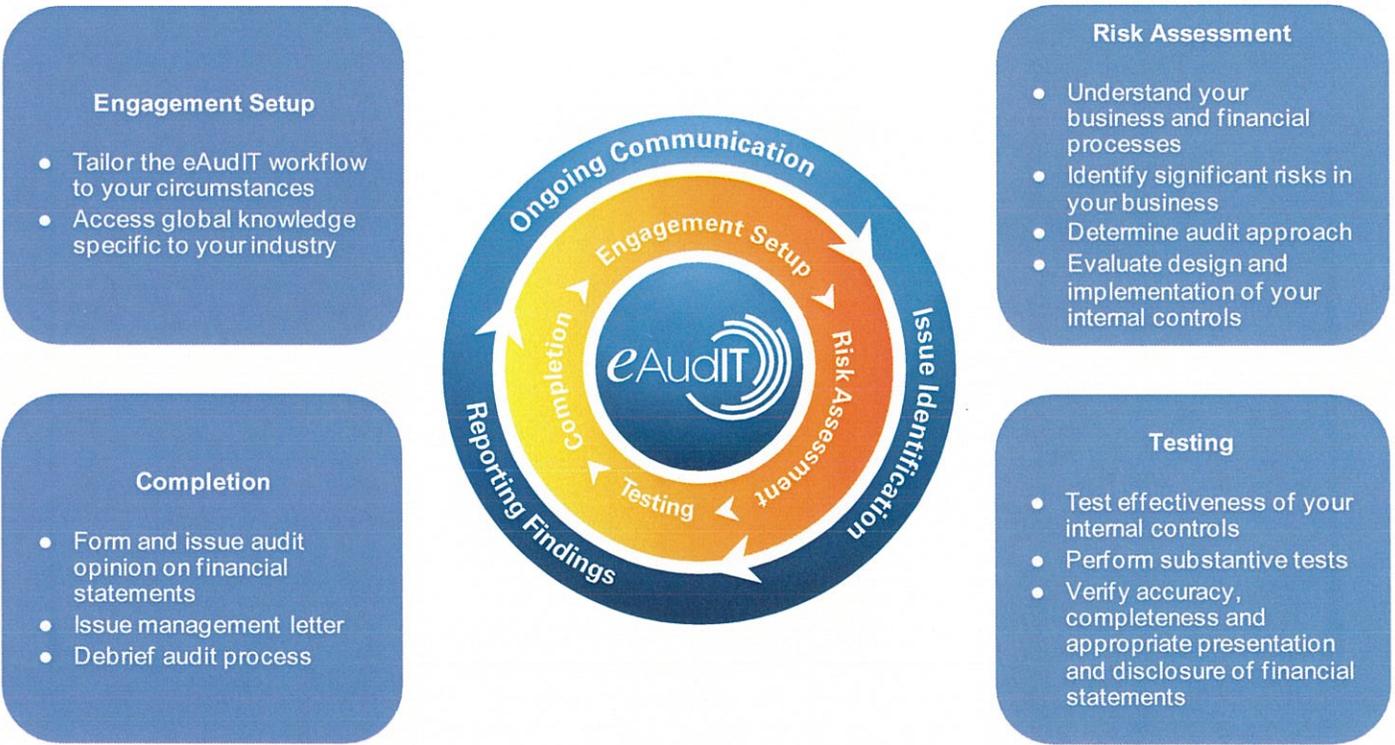
- Planning and interim procedures
- Single Audit
- Final procedures and reporting phases

We have scheduled our audit staffing to be in a position to present any proposed audit adjustments for the City by late October/early November. We understand that the goal of the City's Department of Finance is for the City's and City Pension's Comprehensive Annual Financial Reports (CAFRs) to be issued on or before November 30 and for the Transit Company's audited financial statements to be issued on or before October 31.

KPMG's technology-enabled audit workflow

"eAudit" is a global electronic audit management tool created by KPMG International for its member firms to provide the methodology, guidance, and industry knowledge needed to perform a high-quality and efficient audit of financial statements. A distinct combination of experience and progression, eAudit enables KPMG member firms to deliver an efficient audit process for our clients.

Our Audit workflow is comprised of four principal phases—engagement setup, risk assessment, testing, and completion—as illustrated and described below.



Audit quality is our top priority.

New accounting pronouncements

We would like to remind you of the following new accounting pronouncements required to be adopted by the City and related entities in fiscal year 2013:

GASB Statement No. 60

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement* (GASB Statement No. 60). The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration, and (2) the operator collects and is compensated by fees from third parties.

GASB Statement No. 61

In November 2010, the GASB issued Statement No. 61, (*The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34* (GASB Statement No. 61)). The objective of this Statement is to improve financial reporting for governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial statements – and Management's Discussion and Analysis – for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

GASB Statement No. 62

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB Statement No. 62). The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board (APB) Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

GASB Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB Statement No. 63). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively.

New auditing standard

The following new Statement on Auditing Standards (SAS) is effective for the fiscal year June 30, 2013 audit:

■ **SAS No. 122: Clarification and Recodification.**

- SAS No. 122 recodifies and supersedes various SAS's. The most noticeable impact is on the form of the auditor's report:
- **Title** – should include the word "independent" in the title.
- **Addressee** – should be addressed as required by the circumstances of the engagement.
- **Introductory Paragraph** – should:
 - a. identify the entity whose financial statements have been audited,
 - b. state that the financial statements have been audited,
 - c. identify the title of each statement that the financial statements comprise, and
 - d. specify the date or period covered by each financial statement that the financial statements comprise.
- **Management's Responsibility for the Financial Statements** – should include a section **with the heading "Management's Responsibility for the Financial Statements"** that describes management's responsibility for the preparation and fair presentation of the financial statements.
- **Auditor's Responsibility** – should include a section **with the heading "Auditor's Responsibility"** which states that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.
- **Auditor's Opinion** – should include a section **with the heading "Opinion"** that states the auditor's opinion on the financial statements.
- **Other Matter** – include a section **with the heading "Other Matter"** that states the auditor's opinion on the supplementary information in relation to the financial statements as a whole.
- **Signature of the Auditor** – should include the manual or printed signature of the auditor's firm.
- **Auditor's Address** – should include the name, the city and state where the auditor practices.
- **Date of the Auditor's Report**

Significant audit areas

City of Roanoke

- Revenue generation and collection
- Bond Offerings, Budgetary, Treasury
- Service Delivery and Procurement
- Human Resources and Payroll
- Single Audit Testwork
- Auditor of Public Accounts Testwork
- Information Technology
- Adoption of GASB Statements No. 60 through 63 in FY 2013

Greater Roanoke Transit Company – Transit Operations

- Capital Acquisitions
- Purchasing and Procurement
- Passenger Revenues
- FTA Grant Revenues and Expenditures
- Payroll and Related Employee Benefits

City of Roanoke Pension Plan

- Contributions
- Benefit payments
- Investments, including hard-to-value investments

A-133 Single audit

Single Audit – Five Step Approach

- Step 1: Obtain an Understanding
- Step 2: Document Our Understanding
- Step 3: Conclude on the Adequacy of the System Design
- Step 4: Test Established Controls
- Step 5: Test for Compliance with the Requirement

Anticipated Current Year Programs

- Federal Transit Capital and Operating Grants (GRTC)
- Supplemental Nutrition Assistance Program (SNAP) Cluster
- Justice Assistance Grant Program Cluster
- Medicaid Assistance Program
- Others - TBD

Other planning matters

Current Year Issues

- Annual Determination of Component Units (including impacts of GASB Statement No. 61)
- Continued Impact of Economic Conditions

City of Roanoke, GRTC and City Pension Plan Audit Assistance

- Coordination of Schedules Prepared by Client (PBC's) and Audit Confirmation Letters
- Municipal Audit Department Assistance
- On-site System Access
- Timing of Schedule of Expenditures of Federal Awards (SEFA) Completion
- CAFR Review Process

Consideration of Fraud in the Audit

Materiality Considerations

Audit Committee Areas of Audit Emphasis

Other

