

LFN 2014-13

August 25, 2014

Local Finance Notice

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Distribution

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Fire Districts
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Annual Audit Requirements for Local Authorities and Fire Districts

Pursuant to N.J.A.C. 5:31-7.6, each authority and special district (including fire districts) must conduct an annual audit for their respective fiscal year in accordance with the following standards:

- 1) Generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants;
- 2) *Government Auditing Standards* issued by the Comptroller General of the United States and the United States Government Accountability Office (often referred to as "Yellow Book," "Generally Accepted Government Auditing Standards," or "GAGAS"); and
- 3) Audit standards having been adopted as rules by the Local Finance Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

The annual audit may be performed by a registered municipal accountant of New Jersey ("RMA") or a certified public accountant of New Jersey ("CPA") according to Local Authorities Fiscal Control Law (N.J.S.A. 40A:5A-15). However, *Government Auditing Standards* further establishes general standards and guidance for performing financial audits, attestation engagements, and performance audits under GAGAS. These general standards establish a foundation for the credibility of the auditors' work, including the competence of staff and quality control and assurance. Therefore, not all RMAs and/or CPAs meet the standards set forth under *Government Auditing Standards* in order to conduct an audit in accordance with GAGAS.

Government Auditing Standards Chapter 3.82 "Quality Control and Assurance" requires that each audit organization performing audits in accordance with GAGAS must:

- 1) Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements; and
- 2) Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every three (3) years.

Local authorities and fire districts should incorporate a review of the audit organization's most recent peer review report into the procurement process for audit services to ensure that the auditor it selects meets the standards set forth under *Government Auditing Standards*. Each local authority and fire district should request a copy of the audit firm's most recent peer review report along with the proposal for audit services (or contract for audit services if a competitive bid process is not undertaken) on an annual basis. The peer review rating in the report should be considered when evaluating the quality of services that the audit firm proposes to provide.

Peer review ratings are classified as follows under *Government Auditing Standards*:

- 1) Pass – a conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards in all material respects.
- 2) Pass with Deficiencies – a conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.
- 3) Fail – a conclusion, based on the significant deficiencies that are described in the report, that the audit organization's system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, or the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards in all material respects.

Local authorities and fire districts are responsible for compliance with the requirements of the Local Authorities Fiscal Control Law and N.J.A.C. 5:31-7.6 as described above. As such, the governing body and management of each authority and fire district must perform adequate due diligence to ensure that the auditor that they engage to perform the required annual audit meets the "Quality Control and Assurance" standards set forth under *Government Auditing Standards*. A review of the auditor's most recent peer review report serves as a best practice for the local authorities and fire districts to perform their due diligence in selecting an audit firm.

The audit submission will not be accepted by the Division if a local authority or fire district submits an audit not complying with the provisions of N.J.A.C. 5:31-7.6. This will result in a delay in the Division's approval of future budgets submitted by the local authority or fire district until an audit is submitted complying with N.J.A.C. 5:31-7.6. In addition, any applications submitted by the authority or fire district to the Local Finance Board may not be heard until a compliant audit is submitted to the Division.

Any questions regarding this Notice should be directed to the Division's Authority Regulation Section by calling 609-984-0132 or emailing dlgs@dca.state.nj.us.

Approved: Thomas H. Neff, Director

Table of Weblinks

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1	AICPA Gen. Accepted Auditing Stds.	http://www.aicpa.org/Research/Standards/AuditAttest/Pages/audit%20and%20attest%20standards.aspx
1	GAO Yellowbook	http://www.gao.gov/assets/590/587281.pdf
1	N.J.A.C. 5:31-7	http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_31/njac_5317.pdf
1	Authority Audit Questionnaire	http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_31/njac_5317a.pdf
1	Fire Dist. Audit Questionnaire	http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_31/njac_5317b.pdf
1	Governing Body Resolution	http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_31/njac_5317c.pdf
1	Special Confidential Rpt	http://www.nj.gov/dca/divisions/dlgs/resources/rules_docs/5_31/njac_5317d.pdf