

**MOORPARK CITY COUNCIL
AGENDA REPORT**

TO: Honorable City Council

FROM: Ron Ahlers, Finance Director 

DATE: June 24, 2010 (Committee Meeting of July 7, 2010)

SUBJECT: Consider Additional Assignment for FAPS Committee: External Auditors Request to Interview Audit Committee

SUMMARY

The external auditors, Teaman, Ramirez and Smith {TRS} have requested to interview those charged with governance of the organization. Specifically, TRS would like to interview the Audit Committee of the City of Moorpark. Since we do not have an "Audit Committee", we suggested that TRS interview the FAPS Committee. The nature of the interview will involve fraud prevention. TRS will interview each member of the FAPS Committee individually. This will be an additional annual assignment for the FAPS Committee.

BACKGROUND

Statement on Auditing Standards No. 99: Consideration of Fraud in a Financial Statement Audit, commonly abbreviated as SAS 99, is an auditing statement issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) in October 2002. SAS 99, which supersedes SAS 82, was issued partly in response to accounting scandals at Enron, WorldCom, Adelphia, and Tyco. The standard incorporates recommendations from various contributors including the International Auditing & Assurance Standards Board. SAS 99 became effective for audits of financial statements for periods beginning on or after December 15, 2002.

SAS 99 defines fraud as an intentional act that results in a material misstatement in financial statements. There are two types of fraud considered: misstatements arising from fraudulent financial reporting (eg. falsification of accounting records) and misstatements arising from misappropriation of assets (eg. theft of assets or fraudulent expenditures). The standard describes the fraud triangle. Generally, the three 'fraud triangle' conditions are present when fraud occurs. First, there is an incentive or

pressure that provides a reason to commit fraud. Second, there is an opportunity for fraud to be perpetrated (eg. absence of controls, ineffective controls, or the ability of management to override controls.) Third, the individuals committing the fraud possess an attitude that enables them to rationalize the fraud.

SAS 99 requires the auditor to gather information necessary to identify risks of material misstatement due to fraud by the following:

- Making inquiries of management and others within the entity.
- Considering the results of analytical procedures performed in planning the audit.
- Considering fraud risk factors.
- Considering certain other information.

SAS 99 requires auditors to ask management questions about their awareness and understanding of fraud. Auditors will then make a decision as to whether they need to 'educate' management about fraud and the types of controls that will deter and detect fraud. The standard also requires auditors to make inquiries of the audit committee, internal audit personnel and others within the entity.

DISCUSSION

In order to comply with SAS 99, TRS has requested to make the following inquiries of the FAPS Committee:

- 1) Their views about the risks of fraud.
- 2) Whether they have knowledge of any fraud or suspected fraud affecting the City.
- 3) Whether they have an active role in oversight of the City's assessment of the risks of fraud and the programs and controls established to mitigate those risks, and if so, how they exercise such oversight activities.

FISCAL IMPACT

None.

STAFF RECOMMENDATION

Approve additional assignment for the FAPS Committee to serve as the Audit Committee to comply with SAS 99.