

**GUIDELINES FOR CONDUCTING
AGREED-UPON PROCEDURES ENGAGEMENTS
AND
REGULATORY BASIS AUDITS
FOR MUNICIPALITIES**

October 23, 2023

LEGISLATIVE JOINT AUDITING COMMITTEE



GUIDELINES FOR CONDUCTING
AGREED-UPON PROCEDURES ENGAGEMENTS AND
REGULATORY BASIS AUDITS
FOR MUNICIPALITIES

	<u>Page</u>
Foreword	1
Agreed-upon Procedures Minimum Requirements	2
Regulatory Basis Audits	
Ark. Code Ann. §§ 10-4-412, 12-8-405	4
Additional Information	8

Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

Foreword

This booklet is intended to provide guidance for those accountants employed by municipalities to perform agreed-upon procedures or regulatory basis audits as authorized by Ark. Code Ann. § 10-4-412. This code requires agreed-upon procedures engagements be conducted in accordance with standards established by the American Institute of Certified Public Accountants and subject to the minimum procedures prescribed by the Legislative Joint Auditing Committee. These minimum procedures and Ark. Code Ann. § 10-4-412 are included in this booklet and provide specific guidance concerning the requirements imposed on accountants performing agreed-upon procedures engagements. Additionally, Ark. Code Ann. § 10-4-412 requires financial statements of municipalities be presented on the basis outlined in the law. If the governing body adopts the appropriate resolution, an alternative to this format is authorized.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Roger A. Norman".

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

AGREED-UPON PROCEDURES MINIMUM REQUIREMENTS

The Independent Accountant's Report on Applying Agreed-Upon Procedures should state for which funds, if any, the enumerated procedures were not performed. The report should also list specifically for which funds the procedures were performed. In addition, exceptions to any of the procedures or a statement that no exceptions were found should be noted immediately following the procedures for each section (Cash and Investments, Receipts, etc.) If any of the procedures are not applicable for a municipality, this should be noted in the particular section. The following are the minimum procedures for a municipal engagement as prescribed by the Legislative Joint Auditing Committee:

Cash and Investments

1. Determine the ending book balance is within 10% or \$1,000/\$500, whichever is greater, of the proof of cash ending balance. (Use \$1,000 for first class cities and \$500 for all other entities.)

Receipts

2. a. Determine total receipts per journal are within 10% or \$1,000/\$500, whichever is greater, of deposits per proof of cash. (Use \$1,000 for first class cities and \$500 for all other entities.)
b. Determine state turnback, sales taxes, fire protection funds, and pension funds paid by the State of Arkansas were deposited in the proper fund.
c. Add one month's receipts issued and determine they are within 10% or \$250/\$100, whichever is greater, of deposits per bank accounts for all funds except the Bond and Fine, Court, and Payroll Funds. (Use \$250 for first class cities and \$100 for all other entities.)
d. Add all receipts issued for the year and determine they are within 10% or \$1,000/\$500, whichever is greater, of the deposits per the proof of cash for the Bond and Fine and Court Funds. (Use \$1,000 for first class cities and \$500 for all other entities.)

OR

- d. If more than 500 receipts were issued for the Bond and Fine or Court Funds, add two months receipts issued and determine the total is within 10% or \$250/\$100, whichever is greater, of the deposits per bank accounts. (Use \$250 for first class cities and \$100 for all other entities.)
e. Determine if the entity contains an "affected highway" as defined in Ark. Code Ann. § 12-8-402. If yes, determine if the amount of revenue resulting from fines and costs from traffic offense citations written by or arrests made by an affected municipality's law enforcement agency if the traffic offense is a misdemeanor; violation of state law; or violation of a local ordinance for the affected municipality exceed 30% of the municipality's total expenditures (excluding capital expenditures, water and sewer department expenditures, fiduciary fund expenditures, enterprise fund expenditures, and debt service expenditures) in the preceding year.

Disbursements

3. a. Determine total disbursements per journal are within 10% or \$1,000/\$500, whichever is greater, of disbursements per proof of cash. (Use \$1,000 for first class cities and \$500 for all other entities.)

- b. For the General and Street Funds, determine total disbursements did not exceed total appropriations by more than 20%.
- c. For 10% of disbursements (maximum of 30 for all funds, with at least one disbursement per fund except the Bond and Fine and Court Funds), determine disbursements were documented and paid in accordance with any applicable code provisions. (Materiality level - 10% of the total dollars of selected disbursements or \$1,000/\$500, whichever is greater.) (Use \$1,000 for first class cities and \$500 for all other entities.)
- d. For one month, determine court costs were remitted to the Department of Finance and Administration (DFA).

Uniform Traffic Citations

- 4. a. Randomly select ten uniform traffic citations and trace them to the court docket and receipt for payment or to an outstanding warrant, the continued cases list, or dismissal of the case by the Judge.
- b. If speeding citation data regarding the number of miles per hour over the posted limit is electronically available, determine if 50% of speeding citations were issued for ten (10) miles per hour or less over the posted speed limit.

OR

- b. If speeding citation data regarding the number of miles per hour over the posted speed limit is not electronically available, examine citations issued in one month to determine if 50% of speeding citations issued in that month were for ten (10) miles per hour or less over the posted limit.

State Law Compliance

- 5. Evaluate the extent to which the City or Town complied with the following state laws as of and for the year or years ended December 31, ____:
- a. Municipal Accounting Law (§§ 14-59-101 – 14-59-111, 14-59-114 – 14-59-118)
- b. Restricted Street Funds (§ 27-70-207)
- c. Budgets (§§ 14-58-201 – 14-58-203)
- d. Deposit of Public Funds (§§ 19-8-101 – 19-8-107)
- e. Review of Report by Governing Body (§ 10-4-418)
- f. Report of Security Incident (§ 10-4-429)
- g. Improvement Contracts (§§ 22-9-202 – 22-9-204)
- h. Investment of Public Funds (§§ 19-1-501 – 19-1-505)
- i. District/City Courts Accounting Law (§§ 16-10-201 – 16-10-210)
- j. Arkansas Speed Trap Law (§§ 12-8-401 – 12-8-403)
- k. Purchases and Payments of Claims, etc. (§§ 14-58-301 – 14-58-305, -307, -308)

10-4-412. Audits of counties and municipalities. [Effective until June 30, 2024.]

(a)

(1) Except as provided in subdivision (a)(2) of this section, the Legislative Auditor shall audit counties and municipalities in the state.

(2)

(A)

(i) Any municipality may retain the services of a licensed certified public accountant or a licensed accountant in public practice in good standing with the Arkansas State Board of Public Accountancy to conduct a financial audit as prescribed in subsection (b) of this section.

(ii) All reports of the annual financial audit shall be filed with the Legislative Auditor within ten (10) days of issuance of the audit report.

(B) Nothing in subdivision (a)(2)(A) of this section limits the authority of the Legislative Auditor to conduct an audit of any municipality.

(b) Financial Audits.

(1)

(A) For purposes of this subsection, a financial audit shall be planned and conducted, and the results of the work reported in accordance with auditing standards generally accepted in the United States and the Government Auditing Standards issued by the Comptroller General of the United States.

(B) The report shall include a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with the Government Auditing Standards.

(2) Regulatory Basis.

(A) For county and municipal financial audits, the financial statements shall be presented on a fund-basis format with, at a minimum, the general fund and the street or road fund presented separately, and all other funds included in the audit presented in the aggregate.

(B) The financial statements shall consist of the following:

(i) A balance sheet;

(ii) A statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (balances);

(iii) A comparison of the final adopted budget to the actual expenditures for the general fund and street or road fund of the entity; and

(iv) Notes to the financial statements.

(C) The report shall include as supplemental information a schedule of capital assets, including:

(i) Land;

(ii) Buildings; and

(iii) Equipment.

(3) Alternative Basis. As an alternative to the basis prescribed in subdivision (b)(2) of this section, the governing body of a municipality or a county may adopt an annual resolution requiring its annual financial audit to be performed and financial statements presented in accordance with the standards prescribed by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and the United States Government Accountability Office, if applicable.

(c) Agreed-Upon Procedures and Compilation Reports.

(1) As an alternative to a financial audit, the Legislative Auditor may conduct an agreed-upon procedures and compilation engagement of the records and accounts of all municipal or county offices, officials, or employees.

(2) For purposes of this subsection, agreed-upon procedures and compilation engagements shall be conducted in accordance with standards established by the American Institute of Certified Public Accountants and subject to the minimum procedures prescribed by the Legislative Joint Auditing Committee.

(3)

(A) Unless otherwise provided by law, the governing body of a municipality may choose and employ accountants licensed and in good standing with the Arkansas State Board of Public Accountancy to conduct agreed-upon procedures and compilation engagements.

(B) All reports shall be filed with the Legislative Auditor within ten (10) days of issuance.

HISTORY: Acts 2005, No. 2201, § 7; 2011, No. 349, § 1; 2015, No. 554, § 15.

10-4-412. Audits of counties and municipalities — Definitions. [Effective June 30, 2024.]

(a) As used in this section:

(1) “Required report” means a report prepared by a licensed certified public accountant or a licensed accountant in public practice in good standing with the Arkansas State Board of Public Accountancy and filed with the Legislative Auditor under:

(A) Subdivision (b)(2)(A) of this section; or

(B) Subdivision (d)(3) of this section; and

(2) “Turnback funds” means:

(A) General revenue turnback funds, as defined in the Revenue Stabilization Law, § 19-5-101 et seq.; and

(B) Highway revenue turnback funds, as distributed under § 27-70-207.

(b)

(1) Except as provided in subdivision (b)(2) of this section, the Legislative Auditor shall audit counties and municipalities in the state.

(2)

(A)

(i) Any municipality may retain the services of a licensed certified public accountant or a licensed accountant in public practice in good standing with the Arkansas State Board of Public Accountancy to conduct a financial audit as prescribed in subsection (c) of this section.

(ii) All reports of the annual financial audit shall be filed with the Legislative Auditor within ten (10) days of issuance of the audit report.

(B) Nothing in subdivision (b)(2)(A) of this section limits the authority of the Legislative Auditor to conduct an audit of any municipality.

(c) Financial Audits.

(1)

(A) For purposes of this subsection, a financial audit shall be planned and conducted, and the results of the work reported in accordance with auditing standards generally accepted in the United States and the Government Auditing Standards issued by the Comptroller General of the United States.

(B) The report shall include a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with the Government Auditing Standards.

(2) Regulatory Basis.

- (A)** For county and municipal financial audits, the financial statements shall be presented on a fund-basis format with, at a minimum, the general fund and the street or road fund presented separately, and all other funds included in the audit presented in the aggregate.
- (B)** The financial statements shall consist of the following:
- (i)** A balance sheet;
 - (ii)** A statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (balances);
 - (iii)** A comparison of the final adopted budget to the actual expenditures for the general fund and street or road fund of the entity; and
 - (iv)** Notes to the financial statements.
- (C)** The report shall include as supplemental information a schedule of capital assets, including:
- (i)** Land;
 - (ii)** Buildings; and
 - (iii)** Equipment.
- (3)** Alternative Basis. As an alternative to the basis prescribed in subdivision (c)(2) of this section, the governing body of a municipality or a county may adopt an annual resolution requiring its annual financial audit to be performed and financial statements presented in accordance with the standards prescribed by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and the United States Government Accountability Office, if applicable.
- (d)** Agreed-Upon Procedures and Compilation Reports.
- (1)** As an alternative to a financial audit, the Legislative Auditor may conduct an agreed-upon procedures and compilation engagement of the records and accounts of all municipal or county offices, officials, or employees.
- (2)** For purposes of this subsection, agreed-upon procedures and compilation engagements shall be conducted in accordance with standards established by the American Institute of Certified Public Accountants and subject to the minimum procedures prescribed by the Legislative Joint Auditing Committee.
- (3)**
- (A)** Unless otherwise provided by law, the governing body of a municipality may choose and employ accountants in public practice who are licensed and in good standing with the Arkansas State Board of Public Accountancy to conduct agreed-upon procedures and compilation engagements.
- (B)** All reports shall be filed with the Legislative Auditor within ten (10) days of issuance.
- (e)**
- (1)** If a required report is not filed with the Legislative Auditor on behalf of the municipality within eighteen (18) months after the end of a fiscal year that the required report covers, the Legislative Joint Auditing Committee may give notice of that fact to the Treasurer of State, who shall then withhold the municipality's turnback funds in escrow until notified by the Legislative Joint Auditing Committee that all required reports covering periods through the most recent fiscal year have been filed, at which time the escrowed turnback funds shall be released to the municipality.
- (2)** If the Treasurer of State holds a municipality's turnback funds under this subsection longer than twelve (12) months:
- (A)** The turnback funds shall be redistributed to all other municipalities receiving turnback funds; and
 - (B)** The municipality shall not accrue additional turnback funds until the Legislative Joint Auditing Committee notifies the Treasurer of State that all required reports covering periods through the most recent fiscal year ended have been filed.

HISTORY: Acts 2005, No. 2201, § 7; 2011, No. 349, § 1; 2015, No. 554, § 15; 2023, No. 453, § 1.

12-8-405. Required audit inquiry.

An audit of an affected municipality under § 10-4-412 or § 14-58-101 shall include an inquiry to determine whether the affected municipality is potentially abusing police power.

HISTORY: Acts 2019, No. 364, § 3.

Additional Information

Regulatory Basis Municipal Audits in Arkansas

The Arkansas Legislature enacted a law in the 2005 legislative session that requires municipalities to present their financial statements in a prescribed format and also restricts the basis of accounting for this format to one of three methods. The entity's governing body, however, can adopt a resolution annually to adopt GASB no. 34 as their reporting model in lieu of reporting on this regulatory basis established by Ark. Code Ann. § 10-4-412.

The regulatory presentation is on a fund basis with no distinction being made as to the type of funds (Governmental, Proprietary, etc.) being presented. The required financial statements consist of a balance sheet, statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (balances), and a statement of budget versus actual for the General Fund and the Street Fund. A schedule of capital assets is also required to be presented. Columnar headings are required for the General Fund, the Street Fund, and All Other Funds in the Aggregate but additional funds (columns) may be presented separately. The basis of accounting is limited to cash, modified cash, or modified accrual.

Chapter 15 of the State and Local Governments Audit and Accounting Guide, issued by the AICPA, provides guidance to assist the practitioner in preparing the Independent Auditor's Report for regulatory audits.