

Preparing for a *Headache-free* Audit

PRESENTED TO
SWMSBO Conference 2017

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Objectives

- Understand audit terminology
- Gain awareness of audit scope and limitations
- Become familiar with the entire audit process
- Recognize report and submission requirements
- Learn tips and tricks for a head-ache free audit

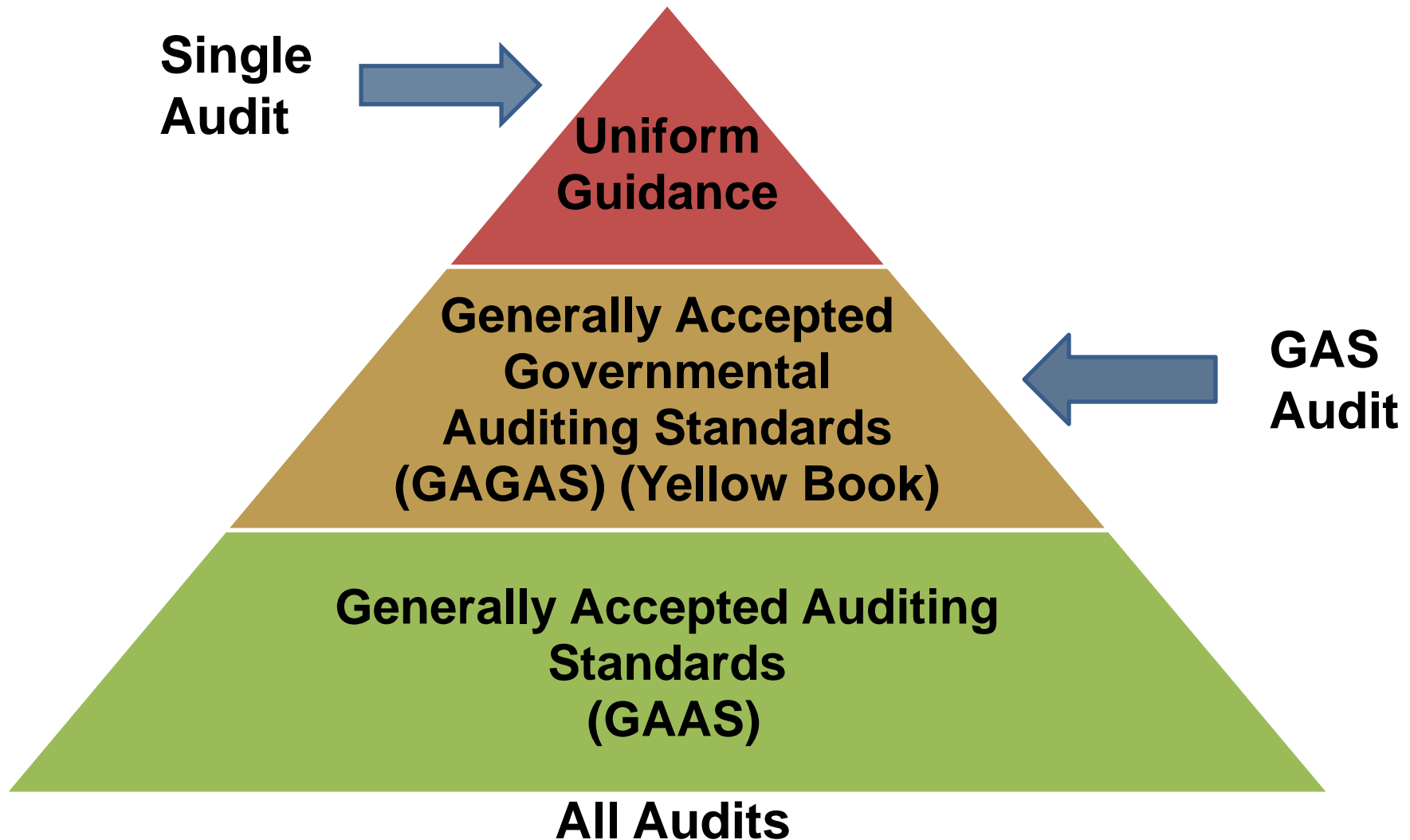


Audit Basics

- External audit – audit performed by an independent firm who does not have any connection to the organization or its financial statements
 - Provide essential accountability and transparency
 - May detect certain deficiencies and weaknesses in the controls of an entity
 - Offer recommendations for improvement
 - Issue an opinion



Audit Standards



Government Auditing Standards (GAS)

- Referred to as the Yellow Book
- Provides an additional layer of auditing standards
- Requirements include compliance with laws, regulations, and provisions of agreements
- Discloses significant deficiencies/material weaknesses and material noncompliance



Government Auditing Standards (GAS)

- When do we usually see an audit required to be performed under GAS?
 - Single audit
 - At request of grantor request or oversight (Michigan Department of Education)
 - Existence of rural development loans
 - Other unique situations



Scope of an Audit

- Auditor's responsibility is to express an opinion
 - Provides reasonable assurance about whether the financial statements are free of material misstatement
- Should be cautious when providing non-attest services:
 - Cannot involve performing management functions or making decisions
 - Management must have sufficient knowledge in order to take responsibility



Limitations of an Audit

- Auditor is not guaranteeing absolute assurance.
- Materiality and selective testing do not cover 100% of information.
- Audit is not designed to prevent or detect fraud.
 - However, the knowledge that an external audit is being performed often acts as a deterrent



Professional Skepticism

- Attitude that includes a questioning mind
- Being alert to conditions which may indicate possible misstatement due to error or fraud
- Critical assessment of audit evidence
- An inquisitive approach when evaluating documentation and forming conclusions



The Audit Process

- Pre-Planning
- Planning & Risk Assessment
- Fieldwork
- Reporting
- Completion



Pre-Planning

- Engagement Letter
 - Projected timing of fieldwork and report issuance
 - Fee arrangements
 - Non-attest services to be performed

- Assistance List (aka Prepared by Client)
 - **BEST** tool for a smooth audit!
 - Update annually
 - [Example](#)



Preliminary Fieldwork

- Internal control testing
 - Updating narratives and organizers
 - Walkthrough of key transaction cycles
 - Disbursements
 - Receipts
 - Payroll
 - Information technology
 - Service organizations
 - Element of unpredictability



Preliminary Fieldwork

- Board minute review
 - First day of the fiscal year through end of fieldwork
- Fraud discussions
 - Board members
 - Management
 - Employees
- Legal invoices and litigation inquiries
- Compliance testing



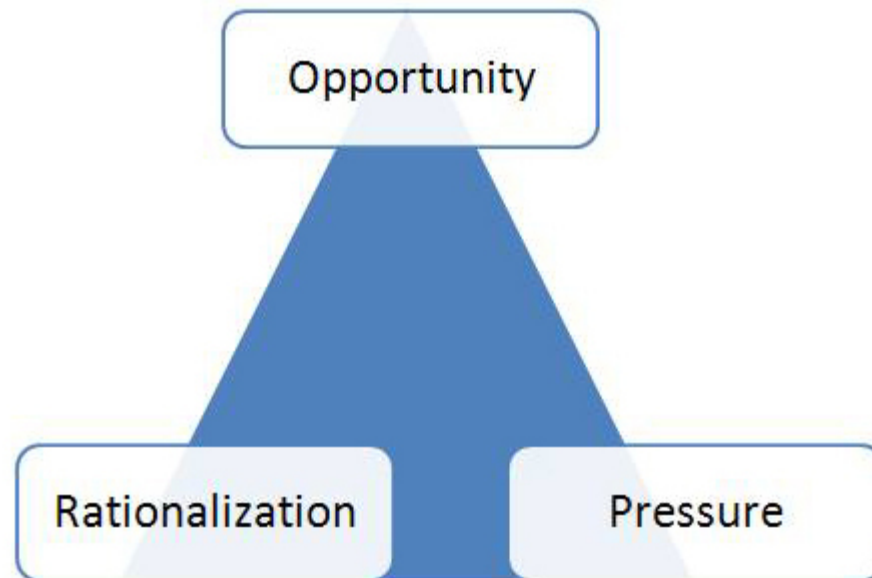
Auditor: Planning & Risk Assessment

- Develops an audit plan
- Uses risks identified during the pre-planning phase
- Must address each risk with a response
- Always a risk of management override of controls



Management Override

- Controls that are otherwise effective can be overridden by management in every entity
- Consideration of known external and internal factors



Client: Planning & Risk Assessment

- Verify all records are up to date
- Begin gathering the items on the assistance list
- Finalize the trial balance
 - The trial balance should not require any adjustments once it is sent to the auditors.



Fieldwork

- External support for every balance sheet account
 - Cash
 - Bank statement for all accounts at year end
 - Bank reconciliation for all accounts at year end
 - Accounts receivable
 - AR aging schedule
 - Listing of all deposits between year end and date of auditor's fieldwork



Fieldwork

- External support for every balance sheet account (continued)
 - Inventory
 - Listing of items, including quantity and cost/unit
 - Prepaid expenses
 - Insurance invoices
 - Fixed assets
 - Updated listing of fixed assets
 - Listing of additions and disposals by fund



Fieldwork

- External support for every balance sheet account (continued)
 - Accounts payable
 - AP aging schedule
 - Invoices paid after year end
 - Payroll
 - Payroll journal
 - Compensated absences listing



Fieldwork

- External support for every balance sheet account (continued)
 - Notes payable
 - Amortization schedules
 - Debt agreements
 - Other
 - Investments
 - IBNR
 - Unearned revenue
 - Net Pension Liability



Fieldwork

- Explanation of major changes or trends to revenue and expenses:
 - Examples
 - Significant decrease in salaries = retirement of 5 employees during the fiscal year
 - Increase in property tax revenue = increase in taxable values
 - Consider reasonableness of accounts – If it sticks out to you, it will stick out to your auditor!



Fieldwork

- Focus energy on accounts that are:
 - (1) More complex
 - (2) Involve estimates or soft numbers
 - (3) Often require adjustments
- Support for required financial statement disclosures
 - Upcoming changes (GASB 77)
 - Review of prior year information



Reporting

- Audit Report
 - Opinion
 - Management Discussion & Analysis (Prepared by Client)
 - Basic Financial Statements
 - Required Supplementary Information
 - Other Supplementary Information



Reporting

- Required Communication to Governance
 - Significant audit findings
 - Difficulties or disagreements encountered performing the audit
 - Corrected and uncorrected misstatements
 - Management representations or consultations with other accountants
 - Other matters and comments



Reporting

- *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAS Letter)*
 - Internal Control over Financial Reporting
 - Compliance and Other Matters
 - Audit Findings



Reporting

- Single audit report
 - Includes GAS letter (see previous slide)
 - *Report on Compliance with Requirements for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards in Accordance with Uniform Guidance*
 - Schedule of Expenditures of Federal Awards (SEFA) and related Notes
 - Schedule of Findings and Questioned Costs
 - Summary of Prior Year Audit Findings



Subsequent Event Inquiry

- Events or transactions that affect the basic information or required supplementary information
- Occur subsequent to the end of the reporting period but before the financial report is issued
- Examples:
 - Sold property
 - Issuance of bonds
 - Settlement of litigation for an amount different from the liability recorded



Management Representation Letter

- Must be signed prior to release of financial statements
- Management represents:
 - ...that the presentation of financial statements are free from material misstatements, whether from error or fraud
 - ... that they provided the auditor access to all records, documentation, and other matters relevant to the preparation and presentation of the financial statements
 - ...in regard to non-audit services – management assumes responsibilities, designated individual with suitable skills, knowledge, or experience to oversee the services, and evaluated the accuracy and results of the services performed



Submissions

- FID Submission
- Qualifying Statement
- Audit Report submission to MDE
- Data collection form (single audit only)
- Audit Report remittance to your local ISD



Top 10 Take Aways

1. Read the engagement letter. This is the contract between client and auditor.
2. Contact your auditor early and often (even before year-end).



Top 10 Take Aways

3. Establish reasonable deadlines in advance and communicate these with your auditor.
4. Make use of the assistance list to determine that everything has been gathered before the auditor arrives for fieldwork.



Top 10 Take Aways

5. Send the trial balance in advance of fieldwork. If there are any changes after its sent, let auditors know immediately.
6. Verify every balance sheet account is supported by external evidence prior to the auditor's arrival for fieldwork.



Top 10 Take Aways

7. Ask the auditor for a list of open items when they leave the field and provide these items as quickly as possible.
8. Review the financial statements closely, and don't be afraid to ask questions!



Top 10 Take Aways

9. Communicate any issues with the audit process or timing, so improvement can be made in the subsequent year.
10. Implement recommendations or correct findings immediately to avoid repeat deficiencies.



Reaping the Rewards

- Timely issuance of audited financial statements
- Auditors are able to offer suggestions for efficiency or process improvements
- Less findings, adjustments, or deficiencies



Reaping the Rewards

- Better balance between day to day duties and audit process for key employees
- A more cost effective audit
- More accurate financial reports in the interim



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