



What to Expect From Your Audit

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Speaker Introductions

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Today's Discussion Topics

- What is an Audit?
- Audit process timeline
- General audit documentation & requests
- Preparing for the Audit: 7 Tips and Tricks
- How the audit helps your organization
- Red Flags/Best Practices



What is an Audit?

- Reasonable assurance
- Level of risk is assessed with each type of account
- Agree client prepared reconciliations/documents to trial balance
- Sample of transactions tested within specific accounts
- Audit opinion is formed based on findings

Audit process timeline

- Audit process starts well before year-end
- Interim Fieldwork (if applicable)
- Audit fieldwork on-site
- Audit wrap-up at auditor's office
- Delivery of DRAFT reports for review/approval
- Audit finalization
- Delivery of FINAL reports



Requests Prior to Fieldwork

- Signed Arrangement Letter
- Preliminary trial balance and general ledger detail
- Information on any changes during the fiscal year
- Signed confirmations (bank, investments, revenue, etc.)
- Board minutes
- Budgets
- New agreements (debt, lease, grant, etc.)



Requests During Fieldwork

- Final Trial balance and General Ledger
- Year-end account reconciliations/schedules
- Year-end cash, investment, and debt statements
- List of grants awarded and/or received
- Fixed asset and depreciation schedule
- Payroll reports, W-2s and 1099s
- Support for testing selections

Preparing for the Audit: 7 Tips and Tricks

- 1** Establish an “Auditor File” and maintain throughout the year
 - Reports from outside consultants, regulatory agency inquiries or internally developed strategic plans
 - Fixed asset additions or disposals
 - Debt or leasing agreements
 - Any contractual obligations
 - Lawsuits
 - Complex transactions



Preparing for the Audit: 7 Tips and Tricks

- 2** Be prepared to discuss changes
 - Governance, management, key personnel
 - Programs, operations
 - Technology
 - Industry, funding sources
 - Update control narratives when changes happen

Preparing for the Audit: 7 Tips and Tricks

3 Use the Audit Planning Letter as a guide for your preparation

- Auditor requests specific account reconciliations
 - Assign responsibility for each line item, review staff schedule for availability and set realistic time expectations
 - Feel free to request clarification, templates, or copies of prior working papers
 - Ask why a particular schedule is requested if you don't know. You might know a better way to show the same thing.



Preparing for the Audit: 7 Tips and Tricks

4 Contributions & Restrictions

- Consider and document any time or use restriction imposed by donors and track any use of restricted funds.
- Remember that only an outside entity can place a restriction. If the restriction comes from the board (or management) it's designated, not restricted.
- Consider whether there are unrecorded pledges of contributions and if any of them are conditional.

Preparing for the Audit: 7 Tips and Tricks

5 Grants

- Make sure to retain copies of all grant agreements.
- It's extremely helpful to prepare a quick summary of each grant listing the basic terms, conditions and reporting requirements.
- Consider whether you should record a receivable for any future payments
 - Document your consideration. There is a benefit to making a determination even if your auditor disagrees with it.

Preparing for the Audit: 7 Tips and Tricks

- 6 Always reconcile supporting schedules to general ledger account totals
 - Update for any adjustments
 - When you finish all of the schedules, go back and re-check that the balances match the general ledger
 - Make sure that beginning equity matches last year's audit report

Preparing for the Audit: 7 Tips and Tricks

- 7** Be ready for auditor's arrival on site
 - Have everything ready for the audit team when they arrive on-site
 - If possible, try providing items as they are completed, which will give your auditor a chance to review them in advance, potentially saving time for you and your auditor

How the audit helps your organization

- Generates confidence in donors when an unqualified audit report is issued
- Reflects that the organization is committed to fiscal responsibility and accountability
- Promotes a healthy system of internal control
 - An independent auditor provides feedback specific to the organization's internal controls
- The audit will serve as a deterrent function of fraudulent activities
 - An additional layer of independent oversight is provided
- Compliance with grant agreements
 - Additional oversight and testing performed on grant requirements

Red Flags/Best Practices

Red Flags

Supporting schedules not maintained, don't tie to the trial balance, and/or not timely prepared/reviewed

Best Practices

Supporting scheduled are prepared monthly in a timely manner with appropriate oversight and review. All schedules tie to the trial balance after all necessary month end entries.

Red Flags/Best Practices

Red Flags

Organization does not have proper internal controls, or are not documented, accessible, and/or followed appropriately

Best Practices

Strong written internal control policies are present and strictly followed. Policies are reviewed on a routine basis and adjusted as needed.

Red Flags/Best Practices

Red Flags

Organization has large miscellaneous or other expense categories, possibly indicating classification issues.

Best Practices

Miscellaneous accounts are only used in truly unique circumstances. All other transactions are appropriately classified.

Red Flags/Best Practices

Red Flags

Documentation cannot be provided for audit testing or significant delays occur due to difficulty locating documentation.

Best Practices

A year-round approach to document retention and organization is taken with an auditor file or equivalent maintained.

Red Flags/Best Practices

Red Flags

Auditee is evasive or extremely nervous during routine audit questions. Auditor routinely results in significant audit entries.

Best Practices

Auditee is open and candid about all actively and changes throughout the year. Auditee keeps in contact with the auditor throughout the year as needed.



Questions?