Audit Preparation
Best Practices

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Jeffrey P. Allen, CPA, CGFM
Senior Manager
Maner Costerisan
Audience Poll

• How many have been through an audit? Multiple times?
• Why do you have an audit?
  – Bylaws
  – Loan covenant/grants
  – Member/customer requirement
• What is your biggest challenge to closing out your books and getting ready for the audit?
• What causes you the most difficulty during the audit process?

Why Should I Do Anything Up Front?

• Less disruption to your staff and your core purpose (Get In, Get Out, Get Better)
• Keep cost down
• Get audit finished sooner
• Gain a greater understanding of my internal control environment and financial health
Pure Audit

• Client prepares the financial statements (with footnote disclosures) – does not contract with auditor to write the financial statements
• No adjusting journal entries

WE SELDOM PERFORM PURE AUDITS
Basic Elements of Financial Statements

- Independent auditor’s report
- Financial statements
  - Balance Sheet/Statement of Financial Position
  - Income Statement/Statement of Activities
  - Statement of Functional Expenses (sometimes)
  - Statement of Cash Flows
- Notes to the financial statements
- Supplementary information

Keys to a Successful Audit

- COMMUNICATION
  - Planning meeting
    - Agree on expectations
    - Timing of audit
    - Timing of presentation
    - Go over “PBC” list (Provided By Client)
    - Discuss format of workpapers
    - Materiality, scope, fraud, etc.
Keys to a Successful Audit (cont.)

• IRS Form 990 “PBC” list reviewed and understood
• Governance discussion(s) held
• Portal established for secure file transfer

Interim Audit Work/Getting Started

• Update internal control procedures & checklists
• Update organization chart
• Provide updates for new contracts, leases, bank financing, LOC covenants, other agreements
• Provide fixed asset additions and disposals
• Identify federal major programs (A-133), if applicable
• Take a step back and think about your organization and what has occurred during the past year – communicate this to auditor
Interim Audit Work/Getting Started (cont.)

- Confirmations prepared
  - Cash, attorney, loans, revenues, AR, etc.
- Provide copies of board minutes for the entire year through audit date
- Debriefing meeting with auditors
- Dates established for:
  - Draft meeting
  - Finance/board meeting

Prior to Final Audit Work

- Provide electronic downloads of:
  - Trial balance
  - Budget (if applicable)
  - General ledger detail
- Review list of schedules to be prepared (PBC)
- Make sure sub ledgers reconcile
  - Accounts receivable
  - Accounts payable
  - Inventory
  - Fixed assets
- Provide board member contact information
Final Audit Work

• Have all requested schedules and documents completed day one
• Make sure you have supporting documentation for adjusting journal entries and reconciling items
• Provide detail to support all major balance sheet items
  – Bank statements and reconciliations
  – Sub-ledger detail (AR, AP, Inventory, FA)
  – Pull support for material transactions and subsequent events (receipts & disbursements)

Final Audit Work (A-133)

• Schedule of Expenditures of Federal Awards (SEFA) prepared and reconciled to accounting records
• Samples pulled and ready (receipts, disbursements, payroll, major programs)
• Copies of grant awards, agreements and approved budgets
• Audit reports from oversight agencies
• Reimbursement requests
Format for Items Needed

• Trial balance (EXCEL)
• Detailed general ledger (EXCEL or PDF)
• Sub ledgers and supporting schedules (EXCEL or PDF)
• Electronic access to files (auditor credentials)?
• Portal utilization

Additional Items Needed

• Journal entry detail and support
• Cash disbursements over a given $ amount
• Documentation for revenue sources
• Budget
• Analytical comparisons and explanations for large variances (year-to-year comparisons)
Footnote Updates

• Update footnotes whenever possible (use prior year as possible starting point)
  — Accounting policy changes, nature of organization, etc.
• Summary of debt activity
• FDIC insurance coverage
• Fixed asset additions and disposals
• Receivables
• Subsequent events (borrowing, capital projects, related parties, etc.)

Single Audit (A-133)

• Review A-133 compliance supplement
• Consider matrix and applicable requirements to each federal grant
• http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2014
Preparing the SEFA (A-133)

- Utilize SEFA to identify potential new major programs
- Tie out total expenditures on the SEFA to the revenue recorded in the general ledger
- Opening receivable (deferral) should agree to the prior year audited SEFA
- Tie ending receivable (deferral) to federal receivables per trial balance

Management Letter & Findings

- Review prior year management letter recommendations (implemented??)
- Draft a response for recommendations that were not implemented
- Consider implications of “information-only” comments
- Respond to findings (if necessary) to document how the issue has been resolved
- Prepare corrective action plan if known findings still exist
Common Audit Findings

• SAS 112 (ability to write financial statements)
• Auditor assistance with material journal entries (error vs. matter of convenience)
• Segregation of duties
• Payroll controls/procedures
• General ledger reconciliation
• Journal entry review

Common Audit Findings (cont.)

• Revenue recognition
• Bank reconciliations
• Federal timekeeping requirements
• Budget violations
Post Fieldwork

• Wrap-up loose ends in a timely manner
• Communicate who is handling submission requirements (A-133)
• Establish plan for completion of IRS Form 990

Summary

• Communicate
• Plan
• Schedule
• Be ready
• More you prepare, less time the auditors need to incur
• Agree up front on what will be an additional fee
Questions?

Jeffrey P. Allen, CPA, CGFM
(517) 886-9516
jallen@manercpa.com