



Preparing for a Successful Audit



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Objectives



Understand what an audit is and define responsibility.



Best practices for planning and preparing for an audit.



Understanding common pitfalls.



What is an Audit?

An audit is the process of examining and verifying management's assertions that their financials are materially correct.

Auditors choose what to test based on risk inherent to transactions or control risk created by control processes that do not adequately address the items that can go wrong with a particular balance.

Who is Doing What?



MANAGEMENT IS RESPONSIBLE FOR ENSURING THAT THEIR FINANCIAL STATEMENTS ARE IN COMPLIANCE WITH GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)



AUDITORS ARE RESPONSIBLE FOR VERIFYING AND TESTING TO ENSURE THAT THE FINANCIAL STATEMENTS ARE IN COMPLIANCE WITH GAAP.

Team Process

The Audit is not just for the finance department, it is the entire organization's financial statement audit.



Communication is Key!

Point Person

Designate a Point Person to make sure all tasks are complete and the Organization is “Audit Ready”.

Provides a central point of communication and coordination for the audit preparation and execution.

Multiple people are typically working together to gather everything but having one person take ownership of how the audit flows is key for a smooth audit.

Lay Out the Plan



Audit Requests

Have all of it done
prior to scheduled
timeframes, not
after

Do the hard stuff
first

Stick to the list

Due dates

Review before
sending



Communication and Transfer of Audit Documentation



Electronic files add efficiency to the audit process. Discuss format with lead auditor.



Electronic files should be editable and use formulas where applicable.



File names should be clear as to what the item is. (Not the number assigned by the scanner).



Information should be reviewed by the audit point person prior to being sent to the audit team.

Auditor access to your systems



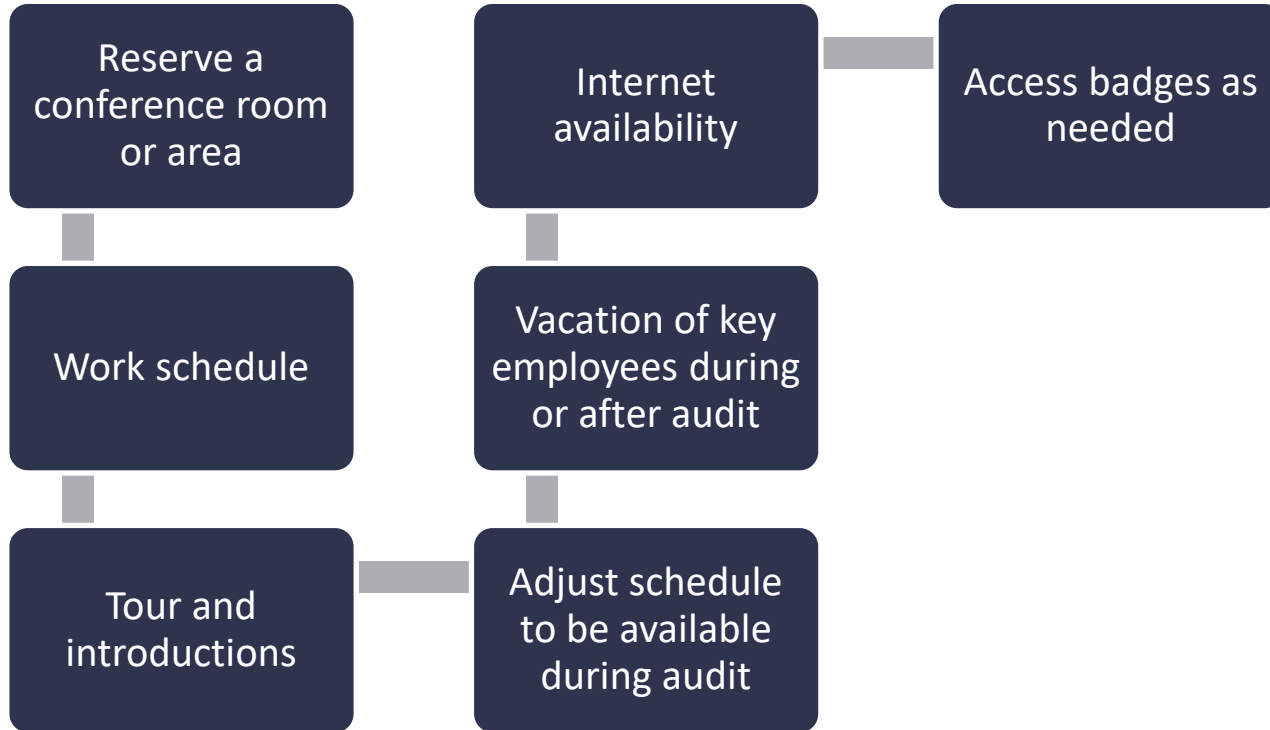
Can be an efficient way for auditors to view reports, items for invoices, contracts, payroll, and other types of support documentation.



Auditors will request what we need ahead of time, and client should verify ahead of fieldwork that the auditors will have access to all information requested through system access, or it should be pulled ahead of time and provided to the auditor.



Housekeeping





Common Audit Prep Pit Falls

Common Audit Prep Pit Falls

Accounts not reconciled – All necessary year end adjustments should be recorded. Check last years audit adjustments.

Not addressing prior year audit issues.

Surprising your auditor with unusual or complex transactions.

Planning to complete audit schedules while auditors are onsite.

Incomplete Confirmations – Not signed by the appropriate signer, incomplete/incorrect accounts, not sent by auditors (Please don't mail them out)





Audit Preparation Best Practices

Audit Preparation Best Practices

Trial Balance

Ensure this is ready
and uploaded
before the audit
starts

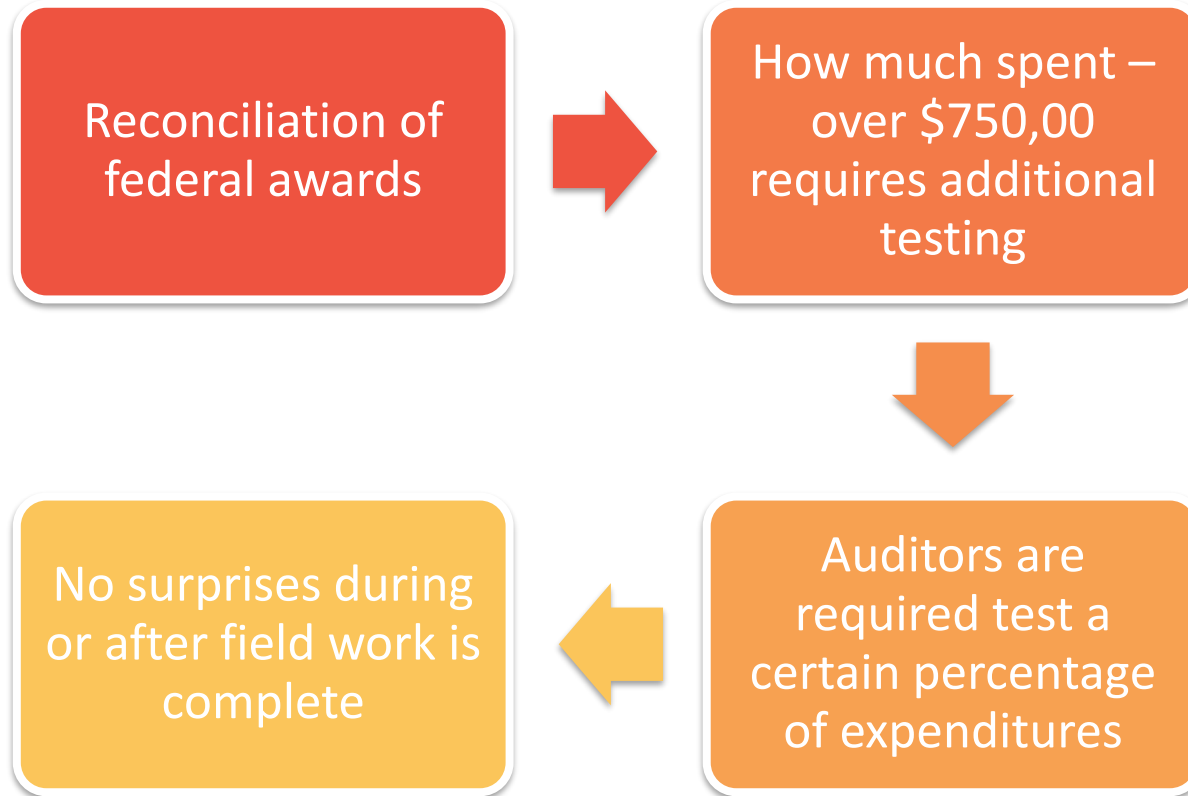


All entries are
made



Hard to complete
audit without it

Audit Preparation Best Practices (Continued)



Audit Preparation Best Practices (Continued)

Proper accounting for Federal and State Grants

Grant administrator
has knowledge of
all grants

Summarize each
revenue account

Revenues are not
commingled

Monitor federal
spending early

Understand how
grants should be
reported



Audit Preparation Best Practices (Continued)

Revenue Cutoff



Review subsequent transactions

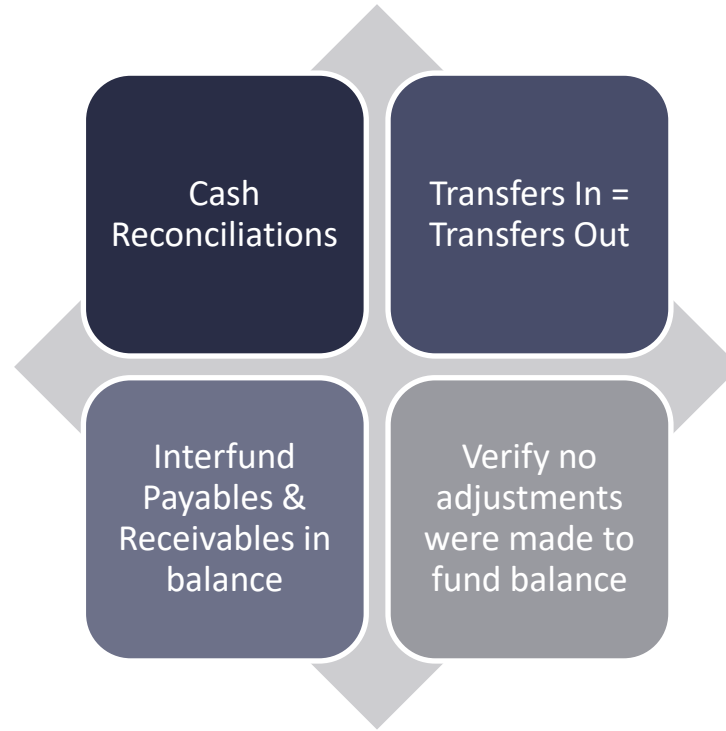


Review community ed programs



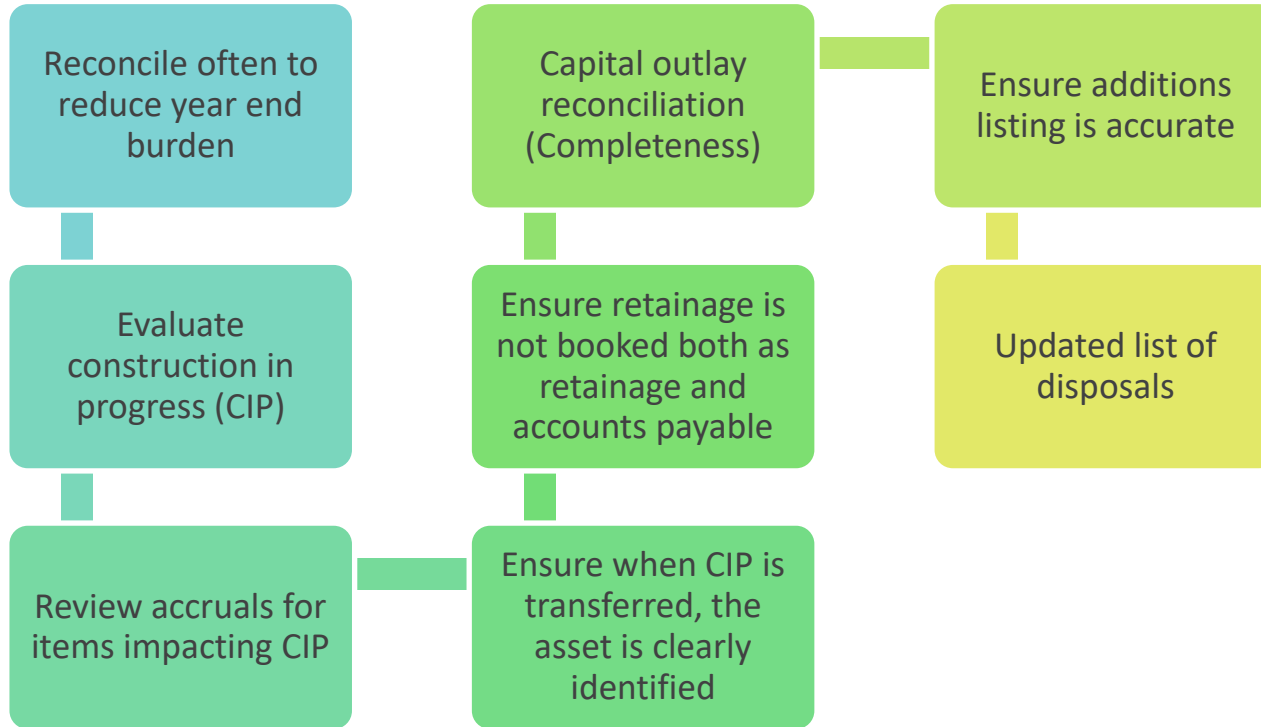
Ensure receivables are properly recorded

Audit Preparation Best Practices (Continued)



Audit Preparation Best Practices (Continued)

Capital Assets

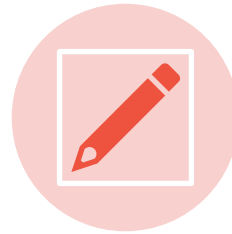


Audit Preparation Best Practices (Continued)

Debt Preparation



Prepare a debt summary with beginning, additions, payments, and ending balances



Ensure all premiums and discounts on long-term debt are amortized utilizing the effective interest rate method



Calculate accrued interest related to debt for the year and show that calculation



Run debt entries past auditors if your unsure how to initially book them on the fund level

Audit Preparation Best Practices (Continued)

OPEB

- OPEB studies done in just after fiscal year end, when applicable
- OPEB updates in off-years

Comp Abs

- Compensated absences schedules done early
- Ensure the correct rate is being used

Inventory

- Inventory reconciliation
- Inventory count

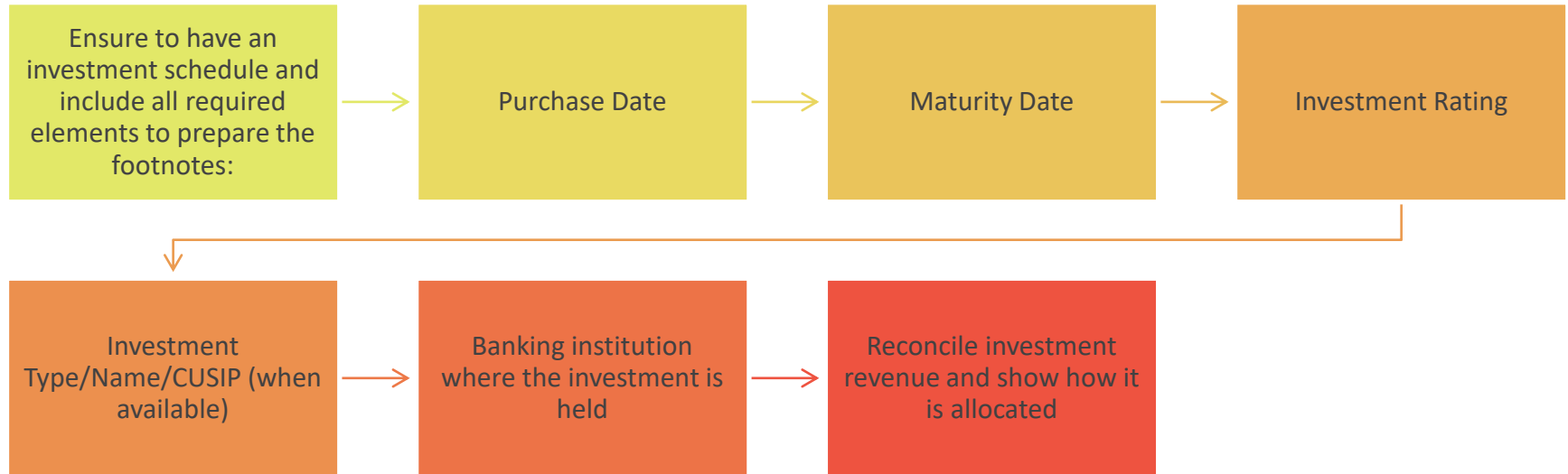
GASB 96

- Don't wait! Start early. Complete prior to final fieldwork for the audit.
- When unsure on where to start, we can help!



Audit Preparation Best Practices (Continued)

Investment Schedule



Audit Conclusions

Exit Conference

- Discussion of audit observations/findings
- Timing of audit report issuance
- Open items and resolutions

Internal Conclusions

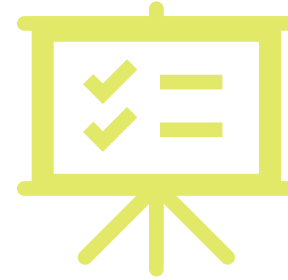
- Draft management responses to audit results
- Perform post audit evaluation
- Discuss efficiencies with the audit team for next year



In Conclusion...



Prepare Prepare Prepare



A Successful Audit is a Combination of
Preparedness on the Client's Part and
Planning on the Auditor's Part



Common Audit Recommendations & Common Audit Adjustments

Key Control Processes are not Documented



Document the control activities within the organization



It doesn't have to be a physical signature and date, although that works



Someone should be able to determine who performed the control and when



It should be documented in a way that is not easily manipulated by another individual when possible

Locked Cells on spreadsheets

Electronic Signatures

Program approvals with an audit trail



Access Issues

Example 1

- Someone can add/edit vendors, enter invoices, and process payments

Example 2

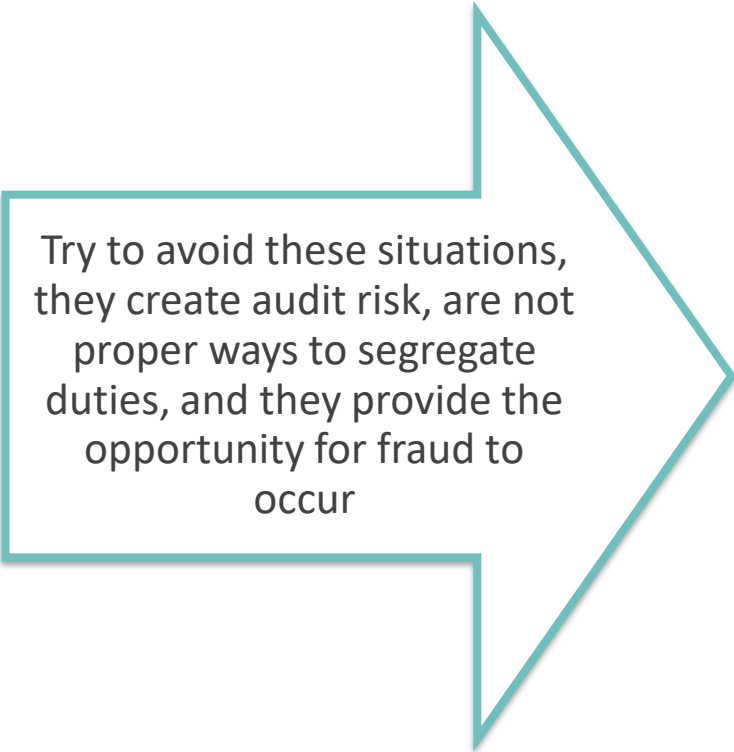
- Someone can add/edit employees in payroll, process payroll, and process payments

Example 3

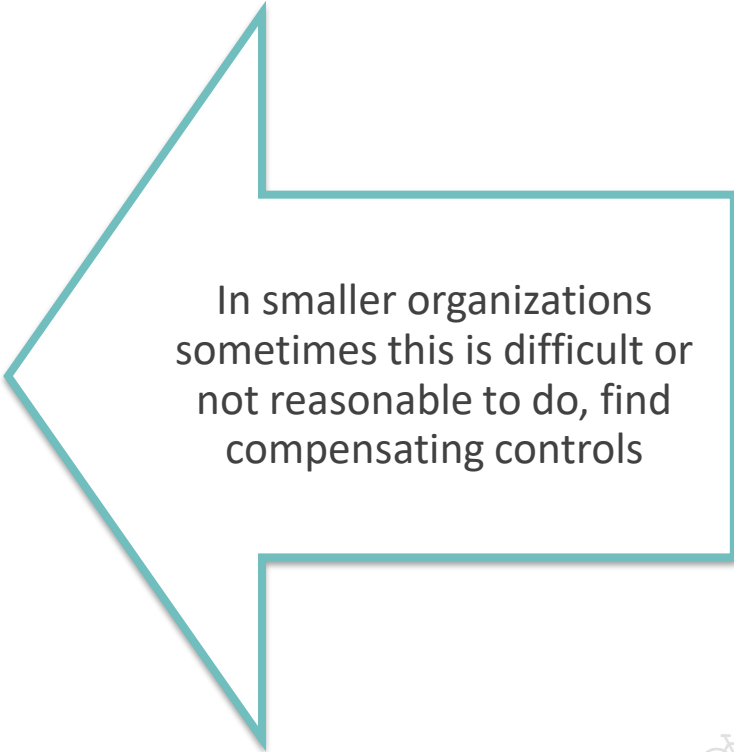
- Someone can initiate and execute any sort of cash payment or transfer without the involvement of another person



Access Issues (Continued)



Try to avoid these situations, they create audit risk, are not proper ways to segregate duties, and they provide the opportunity for fraud to occur



In smaller organizations sometimes this is difficult or not reasonable to do, find compensating controls

Minnesota Legal Compliance Items

Prompt Payment of Claims (35 days typically if board meets monthly)

- If not paid within 35 days of invoice date retain documentation of the following:
 - When was the invoice received (if after invoice date)
 - Any type of communication contesting the invoice amount in total or in part.
 - Communication with vendor where they agree to updated payment terms

IC-134 forms prior to final payment. Ensure they are on file prior to final payment for applicable contracts.

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