

2017 Washington State Nonprofit Conference May 16, 2017

Preparing For Your Audit



Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. | ©2017 CliftonLarsonAllen LLP



Learning Objectives



Audit Process
What to expect



Preparing for an audit How, what, when to prepare



Role of auditor and management
Roles and responsibilities and how they have evolved



Other recommendations
Obtaining the best cost value







What is an audit?











Audit Process

The Audit Process

Planning

- Meet with auditors to update on current year operations
- Be available for questions or set up times during the week for questions
- Hold an exit meeting with the audit team to discuss results, open items, plan for completion, etc.



The Audit Process (continued)

Fieldwork

- Provide auditors with prepared information
- Be available for questions or set up times during the week for questions
- Hold an exit meeting with the audit team to discuss results, open items, plan for completion, etc.

Reporting / Concluding

- Review all audit documents
- Meet with governance to approve deliverables
- Evaluate auditors, post audit follow-up meeting





The Audit Process (continued)

What about the rest of the year?

Use auditors as a resource throughout the year!

Quarterly check-ins

Inquire of trainings that would be applicable to your organization

- Conferences
- Networking opportunities; local peer groups
- Webinars
- Articles



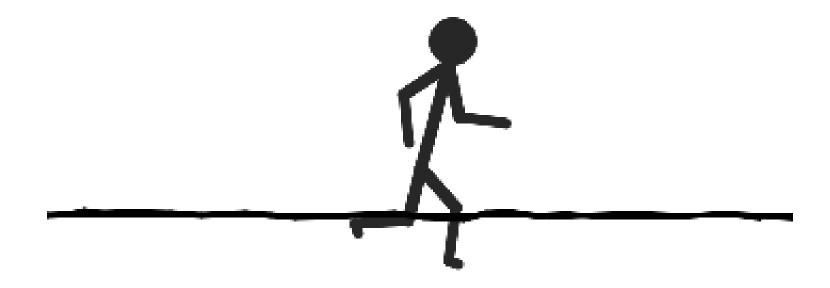






Preparing for an audit

How Not to Prepare









Preparing For an Audit



HOW to prepare

- Understand the audit process
- Set up internal deadlines

WHAT to prepare



- Routine monthly close reconciliations
- Full year reconciliations on major revenue and expense accounts
- Footnote disclosures
- Ask for example schedules if needed
- Routine reconciliations contain most data the audits need







Preparing for an Audit (continued)



WHEN to prepare

- Start right away at year-end for routine reconciliations
- After all routine reconciliations and year-end adjustments are made, complete full-year recap schedules
- Throughout the year for any non-routine transactions that would require auditor assistance





Audit Threshold

What is the threshold for a financial statement audit?

 The state of Washington and IRS have no minimum threshold for a financial statement audit

What is the threshold for a single audit?

- Single audit (uniform guidance)= \$750,000 of federal assistance
- Bank compliance, parent company requirement







Materiality



What is Materiality?

 Materiality is just a concept relating to the importance or significance or an amount, transaction, or discrepancy.

How is something deemed material?

• Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality can be assessed on a "quantitative" or "qualitative" basis.



Materiality (continued)

How is something deemed material?

- An automated spreadsheet is used to determine materiality.
- The basis typically used to calculate materiality is the greater of **total revenue or total assets**.
- The calculation determines what is quantitatively material to the financials as a whole.
- It also provides an amount that is "clearly trivial" or immaterial to the financials as a whole.



Client Assistance Letter



- An auditor will send a list of requested items to have prepared.
- Items to note:
 - Permanent docs, i.e. articles of incorporation, bylaws, certificate of exempt status
 - Policies, procedures and controls around the organization as a whole and finance/accounting specifically

- New contracts or lease agreements
- Year-end trial balance
- General ledger detail for the year
- Board minutes
- Legal invoices



Trial Balance – What the Auditors Need

Balance Sheet Accounts

- Prepare a reconciliation for or be able to substantiate every balance sheet account
- Detailed testing
- Variance analysis

Income Statement Accounts

- Most revenue and expense accounts are viewed analytically to gain comfort around their balances
- Analytical testing
- Reconciliations to Subledgers





Internal Controls

- Provide detailed description of accounting procedures
 - Segregation of duties
 - Proper authorizations
- Audit Testing
 - Review documents
 - Walkthrough of procedures
- Internal controls communication letter
 - Separate report provided to governance/management on internal controls









Role of Auditor and Management

What does an auditor do?







Role of Auditor and Management

Auditor's Role

- Work FOR governance; work WITH management
- Provide an opinion on the financial statements
- Obtain an understanding of internal controls
- Offer best practice advice and plausible solutions for any internal control deficiencies
- Communicate audit results to governance





Role of Auditor and Management

Management's role

- Be prepared for the audit during the schedule timeline
- Be available during the audit for questions
- Provide requested data to auditors





Changes in Roles

- Accounting standards have shifted various items from being an auditor responsibility to management responsibility
- Shift to alternative accounting solutions
- Everything is more complex (financials, taxes, unrelated business income tax, benefits, donor giving, nonprofits in general, etc.)









Other recommendations

Recommendations

Key Areas to Verify

- Make sure Net Assets ties to prior year audit/financials
- Assets = Liabilities + Net Assets
- Net Assets by restriction on the
 Statement of Activities ties to Net Asset
 on the Balance Sheet
- Trial Balance nets to zero
- Reconciliations tie to the general ledger account balance





Recommendations (continued)



Constant communication

- It's ok to ask questions!
- Discuss your audit timeline annually (internally and with auditors)



Proactive approach to unique transactions



Discussions on system/personnel changes as they occur







Resources

- CLA's Nonprofit Industry Website
 - http://www.claconnect.com/industries/nonprofit#Resources
 - One-stop shop for what's going on in the nonprofit world today
- National Council of Nonprofits
 - https://www.councilofnonprofits.org
 - Resource for America's charitable nonprofits
- Guidestar
 - http://www.guidestar.org/Home.aspx
 - World's largest information source on nonprofit organizations









Scott E. McFadden, CPA, CGMA

Engagement Director
Scott.McFadden@CLAconnect.com
425-250-6085
https://www.linkedin.com/in/scottemc

David G. Hoagland, CPA

Signing Director
Dave.Hoagland@CLAconnect.com
425-828-1546
https://www.linkedin.com/in/david-hoagland34300516

CLAconnect.com







