

The audit: Stressful and adversarial process or educational and collaborative opportunity?

Deirdre Hodgson, Principal CLA

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Create Opportunities



Disclaimers

The information contained herein is general in nature and is not intended, and should not be construed, as legal, accounting, or tax advice or opinion provided by CliftonLarsonAllen LLP to the user. The user also is cautioned that this material may not be applicable to, or suitable for, the user's specific circumstances or needs, and may require consideration of non-tax and other tax factors if any action is to be contemplated. The user should contact his or her CliftonLarsonAllen LLP or other tax professional prior to taking any action based upon this information. CliftonLarsonAllen LLP assumes no obligation to inform the user of any changes in tax laws or other factors that could affect the information contained herein.



Learning Objectives

- Explain the audit process
- Review best practices in each stage of the process
- Identify how to create a collaborative approach with your auditors





What one word comes to mind when thinking of the annual audit?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

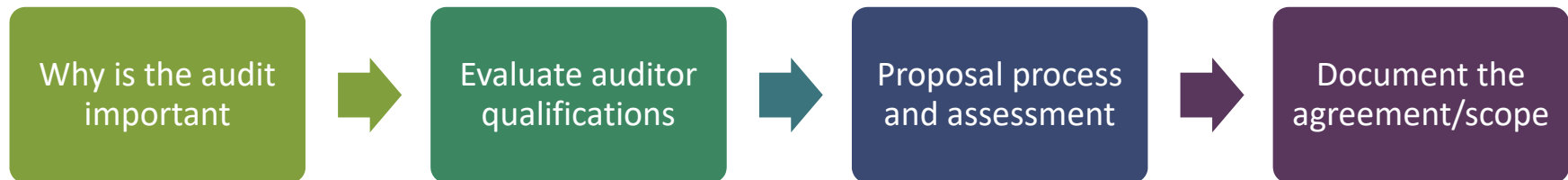
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

The Audit Process



Auditor Selection and Engagement

- The AICPA has issued guidance for helping organizations hire a quality auditor





What are you looking for in an auditor?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Auditor Selection and Engagement

Why is an audit important

- Regulatory requirements
- Improve and streamline operations
- Expand network of trusted professionals

Auditor Qualifications

- Industry experience
- List of quality firms
- Independence
- Properly licensed

Assess proposal

- Request for proposal
- Proposal evaluation
- Auditor selection

Contract scope

- Names and parties of contract
- Scope
- Cost
- Additional schedules
- Management's responsibilities

Inquire of peer institutions for firm recommendations and RFP examples





When do you start thinking about the audit?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Planning

Planning

- Meet with auditors to update on current year operations
- Meet with governance to discuss risks and fraud brainstorming
- Schedule fieldwork to allow time to be fully prepared and meet committee/board deadlines
- Understand the schedules the auditors are requesting
- Assign responsibilities to your team/staff
- Planning can happen ALL YEAR
- Continuous communication

Do not recreate the wheel. Review prior workpapers used with the new auditor.



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





Is any level of fraud considered material to your audit?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Materiality



What is Materiality?

- Materiality is 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 (continued)



How is something deemed material?

- An automated spreadsheet is used to determine materiality.
- The basis typically used to calculate materiality is: **total revenue or total assets**, depending on which is greater.
- The calculation determines what is 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 (PBC Request List)



- An auditor will send a list of requested items to have prepared.



- Items to note:

- Perm docs, i.e. articles, bylaws, certificate of exempt status
- Policies, procedures and controls around the organization and finance
- Legal invoices
- Board minutes
- New contract or lease agreements
- Interim (quarterly) financials (for planning purposes)
- Yearend trial balance



Trial Balance

Balance Sheet Accounts

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

Income Statement Accounts

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





What else do you do to prepare? Checklist? Assignments? Block of calendar?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Internal Controls

- **Provide detailed description of accounting pro**
 - Segregation of duties
 - Proper authorizations

Do you have interim fieldwork? Much of the internal control work can happen during interim.

- **Audit Testing**
 - Review documents
 - Walkthrough of procedures

- **Internal controls communication letter**
 - Separate report provided to governance on internal controls





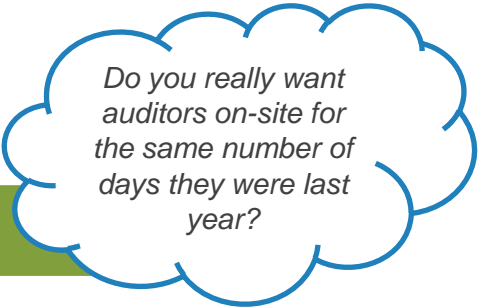
Are you using your internal control documentation for other reasons than the audit?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

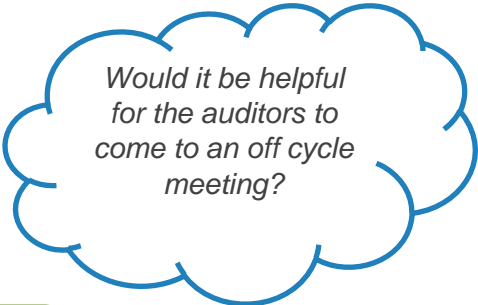
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

Fieldwork

- How do you prefer to communicate?
- Who is the point person?
- Daily check-in meetings
- Schedule the closing meeting early
- Have complete understanding/agreement of open items and timeline
- Discuss any findings early



Reporting to the Board



What do you want the auditors to cover vs. management?

Additional benchmarking or industry update necessary?

Collaborate on materials and presentation



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





Who is responsible for the information contained in the footnotes? Auditor or Management?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

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, student financial aid, and higher education in general, etc.)



After the dust settles....

You've issued the audit but there is still room for improvement in the process

- Talk about!
- Make notes during the audit
- “Next year will be better”





Questions?

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor



CLAAconnect.com

©2020 CliftonLarsonAllen LLP

Deirdre Hodgson, CPA
Principal
Higher Education

Deirdre.Hodgson@claconnect.com

612-397-3023

