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Audit Preparation

2018 ALASBO Conference

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AUDIT PREPARATION

2018 ALASBO Conference

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Why Do I Need An Audit?

- Almost all school districts are required to have an annual financial statement audit, and audit conducted in accordance with the Uniform Guidance and/or the State of Alaska Audit Guide and Compliance Supplement for State Single Audits, due to receipt of federal and/or state financial assistance
- Required by primary government (for certain LEAs), grantors, district charter, etc.



What Is An Audit?

- Annual examination performed by a CPA
 - CPA performs procedures in order to obtain “reasonable assurance” about whether the financial statements are free from material misstatement
- CPA is required to obtain an understanding of an entity’s internal control and assess fraud risk
- CPA also required to corroborate the amounts and disclosures included in the financial statements by obtaining audit evidence through inquiry, physical inspection, observation, third-party confirmations, examination, analytical procedures, and other procedures



What Is Audit Prep?

- What do you personally think audit prep is?
- How has your district historically viewed or considered audit prep?



What Is Audit Prep?

- Process by which an audited entity (the school district) prepares for an annual audit
- Consists of (among other things):
 - Compiling records and supporting documentation for further examination
 - Preparing and finalizing information necessary for preparation of the financial statements
 - Reviewing the prior year for any significant unusual events
 - Communicating with auditor on a variety of topics (timing, logistics, questions, concerns, etc.)
 - Communicating with co-workers on a variety of topics (timing, availability, etc.)



General Tips



Prior Audit Review

- What were the good, bad and ugly parts from last year's audit?
 - What issues came up last year during audit prep that could have been prevented or handled better?
 - What issues came up during audit fieldwork that could have addressed during the prep process?
 - What issues came up at the end of the audit that could have been handled during the prep process?
- Items to consider
 - Timing issues
 - Communication problems
 - Formal results of audit (adjustments, findings, management letter comments)



Learn From the Past

- What are the opportunities for improvement from last year?
- What can my organization do differently to improve the audit process?
- What do I think my auditor can do differently to improve the audit process?



Review the Current Year

- What changes took place that could impact the audit?
 - Personnel changes
 - Internally (new accounting staff, grant managers, administration, board members)
 - Externally (new audit firm, partner, manager)
 - Financial reporting changes
 - New accounting standards
 - New transactions, changes to the entity
 - New Audit requirements
 - First time federal single audit, state single audit, housing certification
 - Significant and/or unusual transactions
 - Asset impairments
 - Environmental issues
 - Contributions



Review the Current Year

- New timing considerations
 - Change in fieldwork week(s)
 - Change in reporting deadlines
 - Known PTO or away-from-work dates
- Possible changes in audit scope
 - Known or suspected fraud
 - Cyber attacks, data loss
 - Software conversions
 - HIPPA violations
 - Special requests from regulators or granting agencies involving the audit



Develop a Timeline

- Schedule the audit with the end in mind
 - Set a target date for issuance that meets external requirements
 - Schedule audit fieldwork early enough to ensure adequate time for completion AND late enough to ensure that the books and records are complete and closed
- Communicate and negotiate the timeline with auditor
 - Ensure fieldwork dates are in agreement
 - Receive commitment on dates for drafts and issuance
- Plan for unexpected events
 - Allow for turnover, illness, unplanned distractions

Develop a Timeline

- Example timeline
 - Required issuance date - November 15th
 - Target issuance date - November 10th
 - Date edits from District due back to auditor - November 5th
 - Date draft due for review - October 29th
 - Proposed audit adjustments due from auditor - October 15th
 - Audit fieldwork completion date - September 14th
 - Start of fieldwork September 3rd
 - Final TB sent to auditor - August 27th
 - Final batch of PBC documents due to auditor - August 27th
 - First batch of PBC documents due to auditor - July 31st
 - Confirmations due to auditor - July 31st
 - Prep list due from auditor - July 1st
 - Pre-audit meeting between auditor and district - June 22nd
 - Engagement letter and audit planning letter to School Board due from auditor - June 15th



Develop a Timeline

- Other timeline considerations
 - Communication of significant matters (e.g. senior staff turnover, lawsuits, data breaches, significant unusual transactions)
 - Communicate to auditor as early as possible
 - Update auditor on status and significant developments
 - Known changes to timeline dates
 - If a certain date will not be met (e.g. final trial balance won't be ready for 2 weeks after the timeline date), communicate information as soon as possible



Develop a Timeline

- Timeline do's and don'ts
 - Do's
 - Consider past results
 - Communicate with all impacted parties (auditor, staff, administration, school board)
 - Build in buffers and flexibility
 - Don'ts
 - Assume every target date and deadline will be made
 - Be overly vague in description of dates and requirements
 - Be overly detailed to the point that timeline is overwhelming



Organize and Transfer Data

- Develop an internal method for gathering, arranging, and storing data
 - Set expectations (requirements) to staff as when and where data will be compiled
 - Considerations given to when and who will review audit prep data
 - Decide on method of storage (electronic versus physical)
 - Preference is almost always electronic, but be realistic on what documents won't be made in electronic format
- Manage access to data
 - Ensure those participating in audit prep have access, and restrict access to others



Organize and Transfer Data

- Agree upon method for transferring data to and from auditor
 - If an external file sharing site is used, who has access to site?
 - If e-mail is used, who will be responsible for sending documents to auditor?
 - If items are to be provided physically, will they be mailed or only made available on-site?
 - If mailed, must they be returned?
 - Who is responsible for maintaining list of items provided to and received from auditor? (especially applicable if an external file sharing site and/or multiple people are allowed to send/receive documents directly with auditor)



Assign Roles and Responsibilities

- Audit prep is a significant undertaking, both in terms of time and energy
- Most effective approach is to use the “divide and conquer” approach
 - Divide
 - Separate segments of audit prep into smaller, individual tasks
 - Divide tasks by accounting area (e.g. payroll vs AP, grants vs. capital assets)
 - Stay cognizant of time and effort required for each component of audit prep
 - Don’t forget that staff still have day-to-day, nonaudit prep job responsibilities and plan accordingly
 - Conquer
 - Be aggressive in expectations for completion of tasks
 - Monitor progress and motivate staff to complete their assignments early
 - Hold staff accountable for producing complete and quality work



Availability and Responsiveness

- Crucial that those tasked with audit prep be available before, during, and after audit fieldwork
- Much more efficient for questions to be asked and answered during the prep phase of an audit
- Timely responsiveness does not mean “instantaneous”
- Communicate known events such as vacations, trainings, and “busy” periods to auditor early
- Likewise, request that auditor share with you their plans regarding vacation, training, and other client commitments



Specific Considerations

#1. Final Trial Balance & General Ledger

- Final trial balance and general ledger should be provided to auditor at least one week before field work
 - Trial balance and general ledger should be run in unison to ensure completeness and accuracy of both
 - Communicate to auditor any large or significant entries remaining to be posted
- Make sure final trial balance balances overall and within each fund
 - Great way to check that entries posted during year were complete
- Make sure fund balance agrees to prior year ending financial statements
 - This helps ensure that all audit adjustments from prior year were posted
- Make sure general ledger capture detailed transaction information. The more detailed, the better!
- Inform auditor about any new funds or accounts
 - Critical to ensure drafting of financial statements is done properly AND audit procedures are designed correctly

#2. Changes During the Fiscal Year

- Be up front about changes made during the fiscal year compared to prior year
- Significant changes include, but not limited to:
 - Changes in the governing structure and key personnel
 - Accounting software used (both additional systems and conversions to new systems)
 - Account balances and significant financial reporting areas
 - Internal control design, policies and procedures related to significant transaction cycles
 - Status regarding corrections of prior year findings
 - Significant new funding sources
 - Material new laws and regulations, external oversight
- Timely and complete communication of such items is crucial to maximizing audit efficiency
 - Such information reduces probability of “re-work”, additional procedures necessary at end of fieldwork, allows for specialists to be brought in early, etc.
- If unsure about any such items, please communicate so as early as possible
- If there is known or suspected fraud, please inform auditor as soon as possible



#3. Details

- “Detail” is an auditor word for a set of individual transactions that support an account balance in the financial statements
- Examples are AP Aging Detail, AR Aging Detail, Revenue Detail, Expenditure Detail, Capital Assets Schedule, Accrued Leave Schedule, etc.
- Crucial that details tie (agree) to the final trial balance or financial statement disclosures provided to auditor
 - Properly reconciled details always make the audit go smoother and quicker!
- Helpful to keep an audit folder for details that were provided to auditors for next year’s audit
 - If special reports were used for current year’s audit, save parameters or templates used to pull them. Auditors are highly likely to ask for the same reports next year



#4. Samples

- “Samples” refer to source documentation of specific transactions that the auditor is required to inspect
 - Example - checks, invoices, timesheets, cash receipts
- Please remember that the auditor wants sample sizes to be as small as possible as well!
- Tag, number, and highlight supporting documentation before given to auditor
- If needed, provide auditor an explanation as to how supporting documentation supports a balance being tested. Things that may be extremely clear to you might not be quite as clear to the auditor
- Electronic supporting documentation is preferred when possible. Please discuss with auditor if there are issues or limitations in providing support electronically



#5. General Items

- Prep package is a starter. Try to provide requested documents in the prep package as much as possible before the field work.
- Don't send out confirmations to 3rd parties. Please, return them to auditor once signed. Auditing professional standards require this
- Be open minded and ready for questions! No audit is the same. Prior audit is different from current year audit. Next year audit will be different from current year audit.
- Please, remember that auditors are trying to help you and your organization!



Questions?

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