

**BKD**

**CPAs & Advisors**

---

# Tips & Tricks for a Smooth Nonprofit Audit Process

LEADING FOR CHANGE | NONPROFIT WEBINAR SERIES

November 10, 2020

# To Receive CPE Credit

## › Individuals

- Participate in entire webinar
- Answer polls when they are provided

## › Groups

- Group leader is the person who registered & logged on to the webinar
  - Answer polls when they are provided
  - Complete group attendance form
  - Group leader sign bottom of form
  - Submit group attendance form to [training@bkd.com](mailto:training@bkd.com) within 24 hours of webinar
- › If all eligibility requirements are met, each participant will be emailed their CPE certificate within 15 business days of webinar

# Today's Presenters




**Corinna Creedon**  
Managing Director  
646.253.5135  
[c Creedon@bkd.com](mailto:c Creedon@bkd.com)



**Nikki Kubly, CPA**  
Director  
615.988.3587  
[nkubly@bkd.com](mailto:nkubly@bkd.com)

# What to Expect

- 1 Understanding external audit
- 2 Key takeaways from the management letter
- 3 Planning, documenting, & preparing for your audit



# What Actually Happens in an External Audit

# What Actually Happens in an External Audit

- › Generally accepted accounting principles (GAAP)
- › Reasonable assurance
- › Materially correct
- › Risk assessments
- › Internal controls – myths & understanding

# Auditor's Opinion

## *Management's Responsibility for the Financial Statements*

- › Management is responsible for the preparation & fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, & maintenance of internal control relevant to the preparation & fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

# Auditor's Opinion

## *Auditor's Responsibility*

- › Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan & perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement



# Auditor's Opinion

## *Auditor's Responsibility*

- › An audit involves performing procedures to obtain audit evidence about the amounts & disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation & fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used & the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements
- › We believe that the audit evidence we have obtained is sufficient & appropriate to provide a basis for our audit opinion

# Opinion

## *Opinion*

- › In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2020, & the changes in its net assets & its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

# Assertions

## Categories of Assertions


	Classes of Transactions & Events During the Period & Account Balances at the End of the Period	Presentation & Disclosure
<b>Existence</b>	Assets, liabilities & equity interests exist, & recorded transactions & events have occurred & pertain to the entity (ET)	Disclosed events & transactions have occurred & pertain to the entity (EP)
<b>Ownership &amp; Obligations</b>	The entity holds or controls the rights to assets, & liabilities are the obligations of the entity (OT)	N/A
<b>Classification &amp; Allocation</b>	Transactions & events have been recorded in &, if applicable, appropriately allocated to the proper accounts (CAT)	Financial information is appropriately classified within the financial statements (CAP)
<b>Completeness &amp; Cutoff</b>	All transactions & events & assets, liabilities & equity interests that should have been recorded have been recorded in the correct accounting period (CT)	N/A
<b>Valuation</b>	Amounts & other data related to transactions & events & assets, liabilities & equity interests & any resulting valuation adjustments have been recorded appropriately (VT)	N/A
<b>Accuracy &amp; Understandability</b>	N/A	All financial & other information that should be included &/or disclosed in the financial statements has been included & is accurately presented, properly described & clearly expressed in plain English (AUP)

Everyone needs a trusted advisor.  
Who's yours?

**BKD**

# Accounting Standards

- › Do you know what is coming?
- › Assess the impact
- › Uniform Guidance impact
- › Audit & Accounting Guides
- › Audit risk alerts



# What Is a Management Letter?

# AU-C 265, Communicating Internal Control Related Matters Identified in an Audit

- › Understanding the auditor's responsibility & requirements in looking for internal control deficiencies in an audit
- › Generally accepted auditing standards (GAAS) require the auditor to communicate in writing to management & those charged with governance **significant deficiencies** & **material weaknesses** in internal control, including those that were remediated during the audit
- › Other deficiencies in internal control identified during the audit that, in the auditor's professional judgment, are of sufficient importance to merit management's attention. If other deficiencies are communicated orally, the auditor should document the communication

# Deficiency in Internal Control

- › A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect & correct, misstatements on a timely basis

# Material Weakness

- › A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a **reasonable possibility** that a material misstatement of the entity's financial statements will not be prevented, or detected & corrected, on a timely basis



# Reasonably Possible

## › Reasonably possible

- The chance of the future event or events occurring is more than remote but less than likely

## › Probable

- The future event is likely to occur

# Significant Deficiency

- › A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

# Evaluation Process for Auditors

- › Evaluating identified deficiencies
- › Potential magnitude impact
- › Likelihood
- › Consideration of mitigating controls
- › Examples of potential deficiencies



# Taking the Pain Out of Your Audit

# Taking the Pain Out of Your Audit

- › **Communicate** – what's changed since last year?
  - Connect during the year ... don't wait until fieldwork starts!
  - During audit – regularly scheduled meetings/updates
- › **Set expectations**
  - Timing of auditor requests
  - Back into internal/external reporting dates

# Taking the Pain Out of Your Audit

## › Review last year's audit

- Revisit & learn from last year's audit process. This includes reviewing oral & written communications from last year, as well as any adjustments

## › When in doubt, ask for the auditor's objective

- Overly taxing requests of staff time & resources

# Planning Is the Key

- › Year-long process
- › Timelines on both management & auditor
- › Interim/external auditors
- › Schedule time to develop the work plan
- › Questions during the year
- › New or unusual transactions
- › Clear expectations
- › Balance of audit & your normal job
- › Use of technology
- › PY management comments – written & oral

# Planning Is the Key

- › Internal control forms/ documentation
- › Key committee & board minutes
- › Use of analytics
- › Organization charts
- › Meetings & project management of the audit process
- › Chart of accounts
- › Confirmations
- › Mergers/acquisitions/system changes



# Impact to Risk Assessments

- › Business risks
- › Strategic plans
- › Economic impact
- › Political impact
- › Turnover of key management
- › Covenants
- › Grants compliance
- › Desk reviews/monitoring reports
- › Valuation of investments
- › Prior-year adjustments & passed adjustments
- › Prior-year management letter comments – written & verbal

# Impact to Risk Assessments

- › Journal entries
- › Litigation – pending, anticipated or threatened
- › Loss of customers/donors
- › Contingencies
- › Significant contracts
- › Leases
- › Debt agreements
- › Plan changes
- › Significant estimates
- › Allowances/provisions
- › Growth plans

# Impact to Risk Assessments

- › New service areas
- › Product development
- › Price or charge sensitivity
- › Fraud
- › Newspaper/articles
- › Complexity of the systems, including service organizations
- › Nature & volume of transactions processed
- › Revenue diversification
- › Override of controls
- › Tone at the top
- › Watchdog ratings
- › Filings timely & accurate

# Before You Start

- › Analytics
- › Metrics
- › Normal close
- › Annual close
- › General ledger review
- › Budget to actual
- › Capitalization
- › Accruals
- › Revenue true-up

# Develop the Plan

## Balance Sheet

- › Reconciliations
- › Rollforwards
- › Confirmations
- › Depreciation schedules
- › Leases
- › Goodwill/patents/copyrights
- › Prepaid expenses
- › Accrued expenses
- › Aging
- › Net asset classifications
- › Debt
- › PTO/salary accruals
- › Retainage/construction accruals

# Develop the Plan

## Income Statement

- › Restrictions
- › Grants
- › Special events
- › Allocation of expenses
- › Payroll reconciliations
- › Sponsorships
- › Repairs & maintenance
- › Any new agreements
  - Split interest agreements
  - Beneficial interests
  - Wills/bequests
  - IRS notices, noncompliance
  - Employment agreements
  - New debt/lending agreements

# Organize the Data

- › Subfolders for significant transaction cycles
  - FS line items
    - › Cash
    - › Revenue
    - › Receivables
    - › Expenses & payables
    - › Investments
    - › Fixed assets
    - › Debt
  - Disclosures
  - PBC

# Ensure It Is Correct

- › Self-review everything
  - Ties to the general ledger
  - Formulas are correct
  - Proper approval
  - Immaterial differences – make sure you note it
  - Lock it down



# Questions?

# Continuing Professional Education (CPE) Credit



**BKD, LLP** is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: [www.nasbaregistry.org](http://www.nasbaregistry.org)

# CPE Credit

- › CPE credit may be awarded upon verification of participant attendance
- › For questions, concerns, or comments regarding CPE credit, please email the BKD Learning & Development Department at [training@bkd.com](mailto:training@bkd.com)

# Thank You!

The information contained in these slides is presented by professionals for your information only & is not to be considered as legal advice. Applying specific information to your situation requires careful consideration of facts & circumstances. Consult your BKD advisor or legal counsel before acting on any matters covered

**BKD**  
CPAs & Advisors

# BKD Thoughtware®

- › Webinars, seminars & articles
- › Many are CPE-eligible
- › <https://www.bkd.com/thoughtware>

Everyone needs a trusted advisor.  
Who's yours?

**BKD**