

# Keys to a Successful Audit



*Presented by:*

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*Moderated by:*

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*Nonprofit Audit Senior Manager*



**Welcome**

*to our 2017 monthly webinar series*

# Our Team

*Meet your instructors*

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**Terri M. McKnight, CPA**

*Director of Audit*

*Department/Nonprofit Audit Partner*

Ms. McKnight has worked in accounting and auditing since 1989. Her responsibilities include managing all phases of nonprofit audit and consulting engagements in accordance with generally accepted auditing standards and government auditing standards. She is the Director of the Audit Department and as such leads our audit practice at Gelman ,Rosenberg and Freedman.



**Trevor W. Williams, CPA**

*Nonprofit Audit Partner*

Mr. Williams has worked with audit functions, contractual compliance rules, regulations, policies, procedures and accounting operations since 1996. He manages the overall planning and administration of audit, review and compilation engagements.

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# Housekeeping

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# Housekeeping

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- Attendees seeking CPE for this presentation must complete and submit a short evaluation survey that will pop up on their screens after the webinar ends
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- Attendees cannot claim CPE unless we receive a completed evaluation with the correct words
- Technical questions about the survey can be addressed to Alina Stone at [astone@grfcpa.com](mailto:astone@grfcpa.com), or at 301-664-9357
- Turn off your pop-up blocker
- This presentation is available to download at [www.grfcpa.com/media/131.pdf](http://www.grfcpa.com/media/131.pdf)

# Housekeeping

## *Webinar Objectives*

- **Learning Objective:** To provide attendees with a better understanding of how to have a successful audit
- **Instructional Delivery Methods:** Group Internet-based
- **Recommended CPE:** 1.0 CPE
- **Recommended Fields of Study:** Accounting & Audit
- **Prerequisites:** None required
- **Advance Preparation:** None
- **Program Level:** Basic
- **Course Registration Requirements:** None
- **Refund Policy:** No fee is required to participate in this session
- **Cancellation Policy:** In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details
- **Complaint Resolution Policy:** Gelman, Rosenberg & Freedman is committed to our seminar participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact [kdavis@grfcpa.com](mailto:kdavis@grfcpa.com) with any concerns.

# Agenda

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- 1 | Why have a financial statement audit
- 2 | Understand the type of audit
- 3 | Who are the readers
- 4 | Auditee versus auditor responsibilities
- 5 | Understand the audit approach
- 6 | Understand your key controls
- 7 | Understand compliance requirements for  
Federal Awards audit
- 8 | Management audit planning
- 9 | Be prepared
- 10 | Call your auditor throughout the year
- 11 | FASB Update

# 1. Why have a financial statement audit?

- Independent, unbiased verification
- Objective assessments of risk, controls and compliance
- Financial transparency
- Fraud deterrence
- Compliance with laws and regulations
- Knowledge to enhance internal controls, efficiencies and effectiveness





## 2. Understand the type of audit

*Financial audits performed in accordance with:*

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- Generally accepted auditing standards in the United States of America
- Government auditing standards
- Single audit under Title 2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
- Program-specific audit
- International standards

# 3. Who are the readers?

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- Board of Directors
- Donors
- Regulatory agencies
- Charity watchdogs
- Banks

# 4. Understand auditee versus auditor responsibilities

## *Auditee Responsibilities:*

- Preparation and fair presentation of financial statements
- Selection and application of accounting principles generally accepted in the US of America
- Establishing and maintaining internal controls to mitigate material misstatement
- Identifying a person with SKE and accepting responsibility



# 4. Understand auditee versus auditor responsibilities

## *Auditor Responsibilities:*

- Opine on whether financial statements, as they are presented, in all material respects, in conformity with US general accepted accounting principles
- Plan and perform the audit to obtain reasonable, but not absolute, assurance
- Consideration of internal controls
- Evaluate accounting policies and significant estimates
- Issue a management letter identifying deficiencies in internal controls
  - ✓ Material weaknesses
  - ✓ Significant deficiencies
  - ✓ Best practice recommendations



# 5. Understand the audit approach

## *Audit Planning*

- Scope, timing and resources needed
- Preliminary discussions of environment:
  - Governance
  - Operations
  - Industry and other external factors
  - Measurement and review of financial performance
  - Review of accounting systems and internal controls
- Risk assessments
  - Inherent risks
  - Control risks
  - Detection risks



# 5. Understand the audit approach

## *Audit Planning (continued)*

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- Complexities of significant estimates
- Fraud Risks:
  - Management override of internal controls
  - Improper revenue recognition
  - Improper financial reporting
  - Fraudulent cash disbursements and misappropriation of cash receipts
  - Fraud associated with federal funds
- Other Risks:
  - Implementation of Uniform Guidance and compliance with applicable federal requirements
  - Follow up on federal finding reported in PY
  - Compliance with laws and regulations
  - Allocation of cost amongst entities
  - Account reconciliations (PY Significant deficiency)

# 5. Understand the audit approach

## *Audit Planning (continued)*

- PBC
- Confirmations
- Assessing design of internal controls
- Fieldwork:
  - Substantive testing
  - Focus on high risk significant areas
  - Accounting estimates
  - Analyze Results
- Reporting: Draft Statements
  - Financial Statements
  - Governance 260 letter
  - Management letter
- Testing internal controls
  - Sampling: **Why?**
  - Small dollar transactions count

# 6. Understand your key internal controls

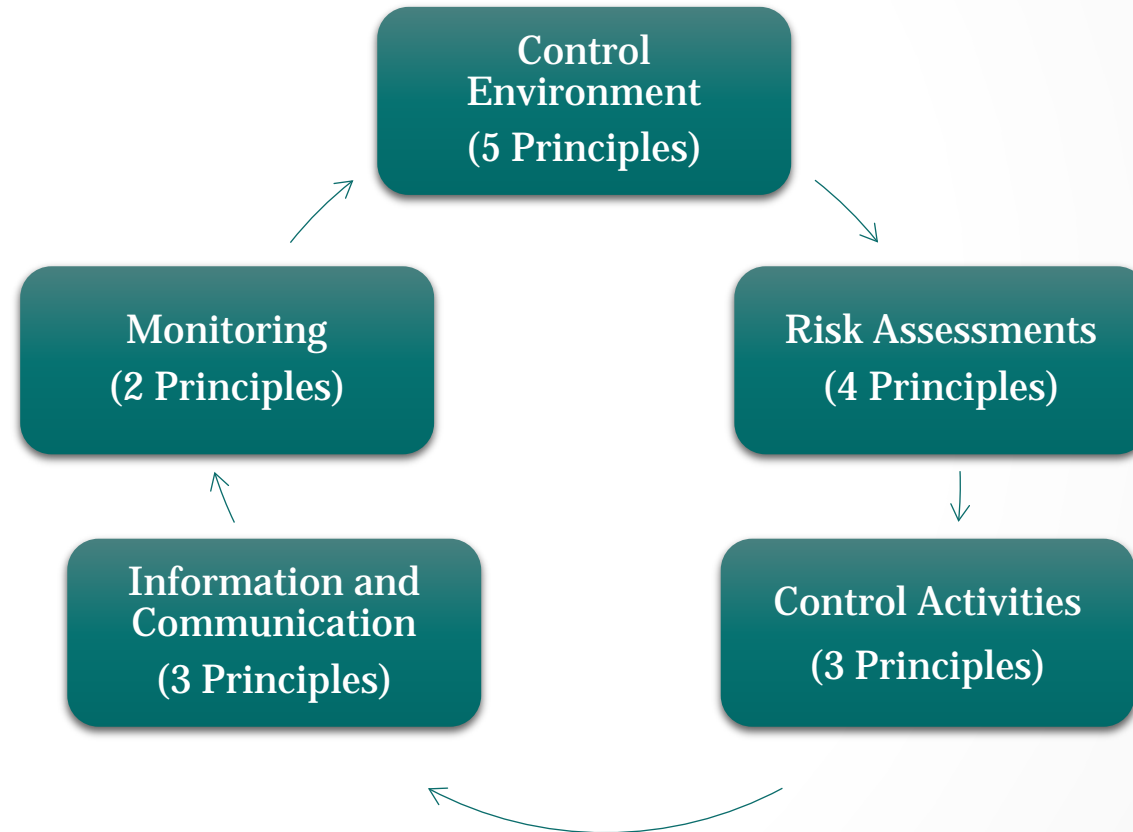
## *5 Components of Internal Controls under COSO:*

### Objectives

- Operations
- Reporting
- Compliance

### 17 Principles

- Applies to each category





# 7. Understand compliance requirements

## *for Federal Award audit*

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- Review award document & summarize compliance requirements
- Identify which cost principles and administrative requirements to use- Circulars or UG
- Review internal controls to ensure compliance with UG
- Review all contract and sub-recipient relationships to ensure they have been properly identified
- Compliance with procurement and suspension and debarment
- Ensure SEFA has all required elements
- Establish a timeline to ensure proper reporting
- Train staff

# 8. Management Audit Planning

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- Plan ahead – year long process
- Learn from prior year audit – what went right and what went wrong
- Review PY financial statements, journal entries and management letter
- PBC list – review, assign staff with timeline
- Send population samples to auditors two weeks early
- Send TB and SEFA two week early
- Perform a self review
- Document, document, document
- Train your staff

# 9. Be prepared

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- **Have key reconciliations ready on first day of audit**
- **Disclose known issues/fraud**
- Be prepared to discuss analytics in detail, PY ML comments, etc.
- Have samples ready for review
- Make sure supporting documentation is complete and accurate
- Update notes for FS
- Be available
- Ask questions

# 10. Call your auditor throughout the year

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- Ask questions, when relevant
- Communicate, communicate, communicate
- Stay up to date on new FASB regulations



# Applying the 10 Keys

- 1. Your audit will go smoothly,*
- 2. Timely, and*
- 3. Will assist in keeping the fees to a minimum.*

# FASB Implementation

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*beginning December 31, 2016 audits*

# FASB ASU #2014-15

## *Presentation of Financial Statements – Going Concern*

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- Management needs to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity ability to continue as a going concern
- Within one year after date of Financial Statements are issued
- Substantial doubt is alleviated – must disclose
  - Principal conditions or events that raised substantial doubt
  - Management's evaluation of the significance of conditions
  - Management's plans that alleviated substantial doubt
- Substantial doubt is not alleviated – must disclose
  - Statement in the notes indicating there is substantial doubt
  - Principal conditions or events that raised substantial doubt
  - Management's evaluation of the significance of conditions
  - Management's plans that are intended to mitigate the conditions or events

# FASB ASU #2015-03

## *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*

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- Debt issuance cost related to a liability will be reported as a direct deduction from the face amount of the liability
- Disclose on the face of the financial statements or in the notes
- Amortization of debt issuance costs will be reported as interest expense
- Apply retrospectively



# FASBs on the Horizon

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# FASB ASU #2015-11 Inventory

## *Simplifying the measurement of inventory*

- Effective Date: Fiscal years beginning after December 15, 2016
- Inventory measured at the lower of cost and net realizable value
- Net realizable value- estimated selling prices in the ordinary course of business less reasonably predictive costs of completion, disposal and transportation
- Does not apply to inventory valued using LIFO or the retail inventory method
- Apply prospectively
- Early application permitted

# FASB ASU #2016-02:

## *Lease Accounting*

- Effective Date: Fiscal years beginning after December 15, 2019 (Early application permitted)
- Exception: Non profits that have issued, or are a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market effective for fiscal years beginning after December 15, 2018
- Provision: Operating leases, greater than one year, by a leaser will be included on the Statement of Financial Position as a “Right-Of –Use Asset” and corresponding liability
- Finance lease:
  - Asset and liability measured at the present value of the lease payments
  - Recognize interest on the lease liability separately from amortization of the right-of use asset
  - Classify repayments of the principal portion within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows

# FASB ASU #2016-02:

## *Lease Accounting (continued)*

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### Operating lease:

- Asset and liability measured at the present value of the lease payments
- Recognize a single lease costs, calculated so that the costs of the lease is allocated over the lease term on a straight line basis
- Classify all cash payments within operating activities in the statement of cash flows

### Lessor Accounting

- Largely unchanged
- Majority will be recorded as operating leases
- Lessors should continue to recognize income on a straight line basis over the lease term

# FASB ASU #2016-14:

## *Presentation of Financial Statements of Not-for-Profit Entities*

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- FYs beginning after December 15, 2017 (Early application permitted, apply retrospectively)
- Statement of Financial Position will show Net Assets With and Without Restriction only (2 net asset classes versus 3 net asset classes)
- Statement of Activities will show change of net assets from 2 net asset classes: With and Without Restriction only
- Indirect or direct method of cash flows but no longer required to show reconciliation of indirect method using direct method
- Enhanced disclosures:
  - Amounts and purpose of governing board designations
  - Composition of net assets with donor restrictions at the end of period and how the restrictions affect the use resources
  - Quantitative and Qualitative Disclosures regarding liquidity
  - Amount of expense by both natural classification and their functional classification
  - Methods used to allocate costs
  - Underwater endowment funds

# FASB ASU #2016-14:

## *Presentation of Financial Statements of Not-for-Profit Entities, continued*

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- Report investment return net of external and direct internal investment expenses
- In the absence of explicit donor stipulation, the placed in service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire long lived asset
- Apply retrospectively
- May early implement
- Phase 2 – Still in deliberation

# FASB ASU #2016-18:

## *Statement of Cash Flows – Restricted Cash*

- Effective Date: Fiscal years beginning after December 15, 2018
- Cash Flow Statement:
  - Restricted cash will be included in the total of cash and cash equivalent
- Retrospective application
- Early application permitted



# FASB ASUs 2016-20, 2016-12, 2015-14, 2014-09

## *Revenue from contracts with customers (early application permitted)*



- Effective Date: Fiscal years beginning after December 15, 2018

**Provision:** Should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for goods and services using a 5-step process.

- Does not apply to contributions





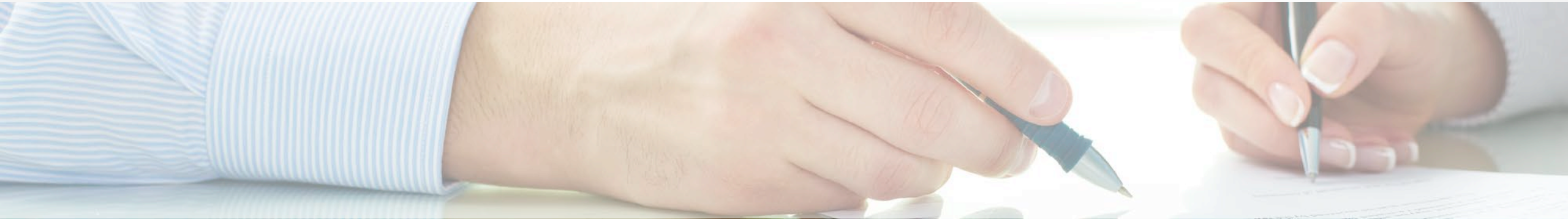
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*at our next seminar for the “2017 Webinar series”,*

***“Top 10 Form 990 Mistakes”***

*February 28, 2017, 11:00 a.m. to 12:00 p.m.*

# Get In Touch



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