

Anatomy of an Audit

Keith F. Novak, Principal

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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



Create Opportunities

Learning Objectives

- At the end of this session you will:
 - Gain a greater appreciation of the audit process for use in your entity's audit
 - Be able to better discuss the results of the audit with the auditor and governance
 - Be able to identify the types of deficiencies for communication to others in management and governance



Selection of an Auditor

- Who at your organization is involved?
 - Is there someone knowledgeable involved in the process?
- What is your main interest?
 - Price
 - Quality
 - Combination
- Special circumstances
 - Timing – other than usual
 - Reporting – specialized reports
 - Operation (specialized components)

Audit Phases

- Planning & Strategy
- Systems evaluation
- Testing and Analysis
- Reporting & Follow-up

Planning & Strategy

- Determine/confirm reporting entity
- Understanding of the entity and environment
- Determine appropriate accounting to be used
 - FASB (non-profit) vs GASB
- Research and discuss anticipated issues
 - New accounting pronouncements
 - New or discontinued component units
 - Improper accounting methodology
 - Problems encountered in prior year(s)

Planning & Strategy *(continued)*

- Develop timing and approach
- Timelines
- Communication lines – Determine players
- Confirm understanding of deliverables
- Meetings with governance and others
 - Fraud interviews
- Develop materiality
 - Materiality is friend to both auditor and auditee
 - ◇ Testing
 - ◇ Audit adjustments
- Determine risks
- Obtain access to minutes, budgets, amendments and financial ordinances

Systems Evaluation

- Internal Control review
 - Manual Controls
 - Computer Controls
 - ◇ Complexity of system determines level of expertise required (Quickbooks vs SAP)
 - ◇ General Controls
 - ◇ Application Controls
- Questions to address
 - Can controls be relied upon?
 - Does it make sense to test them?
 - Are there weaknesses?
 - ◇ Can they be overcome?

Systems evaluation *(continued)*

- Communication of weaknesses
 - Verbal
 - Written

Testing and Evaluation

- Usually referred to as final fieldwork
- Consists of testing specific accounts
 - Substantive tests
 - ◇ Sampling
 - ◇ Individually significant items
 - Analytical review
 - ◇ Balance and relationship reviews against expectations
 - ◇ Horizontal analysis (yr to yr)
 - ◇ Vertical analysis (relationships among accounts)
- Legal Review

Reporting and Follow-up

- Determine that all deliverables are produced/received
- Review financial statements
 - Agree financial statements to underlying accounts (tying in)
 - Determine all required disclosures are made
 - Prove internal integrity and relationships
- Auditor prepared financial statements
 - Does not relieve you of your responsibility
 - Need to make sure auditor has appropriate structure to mitigate “self-review” threat to independence
 - May result in an internal control comment

Internal Control & Compliance Reporting

- Internal Control (AU-C Section 205)
 - Deficiency
 - ◇ 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 and correct, misstatements on a timely basis
 - Design deficiency – missing or poorly designed control such that even if operating, control objective would not be met
 - Operation deficiency – properly designed, but not operating as designed or personnel inadequate for the control



Internal Control Comments *(continued)*

- Material Weakness
 - Deficiency or combination thereof, such that there is a reasonable possibility (reasonably possible or probable) that a material misstatement will not be prevented or detected and corrected timely
 - ◇ Reasonably possible - likelihood of occurrence is more than remote, but less than likely
 - ◇ Probable – Likely to occur

Internal Control Comments *(continued)*

- Significant Deficiency
 - 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
- Other Items
 - Not a material weakness or significant deficiency
 - Efficiencies or best practices
- Compliance
 - Material noncompliance with laws or regulations which could result in a material misstatement

Audit Presentation

- Client Discretion
- Auditors generally prefer to present to governance
- What are the meeting rules
- Open (public) or Closed Session





Keith F. Novak, CPA

Principal

Keith.novak@CLAconnect.com

410-453-5590

