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## ➤ **Financial Review and Audit**

**May 19, 2023**

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## About Today's Presenter

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Owner: The Sheriff CPA Services, LLC

12 Years Experience as a Non-Profit Finance Director

AICPA Non-Profit Certificate I & II

Non-Profit Accounting, Auditing, and Tax Preparation Specialist



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## About Today's Presenters

Angela Silva, Collaborative Partners Initiatives (CPIN)



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# WELCOME AND INTRODUCTIONS

Let's get to know one  
another

What is one thing you  
would like to learn  
today?



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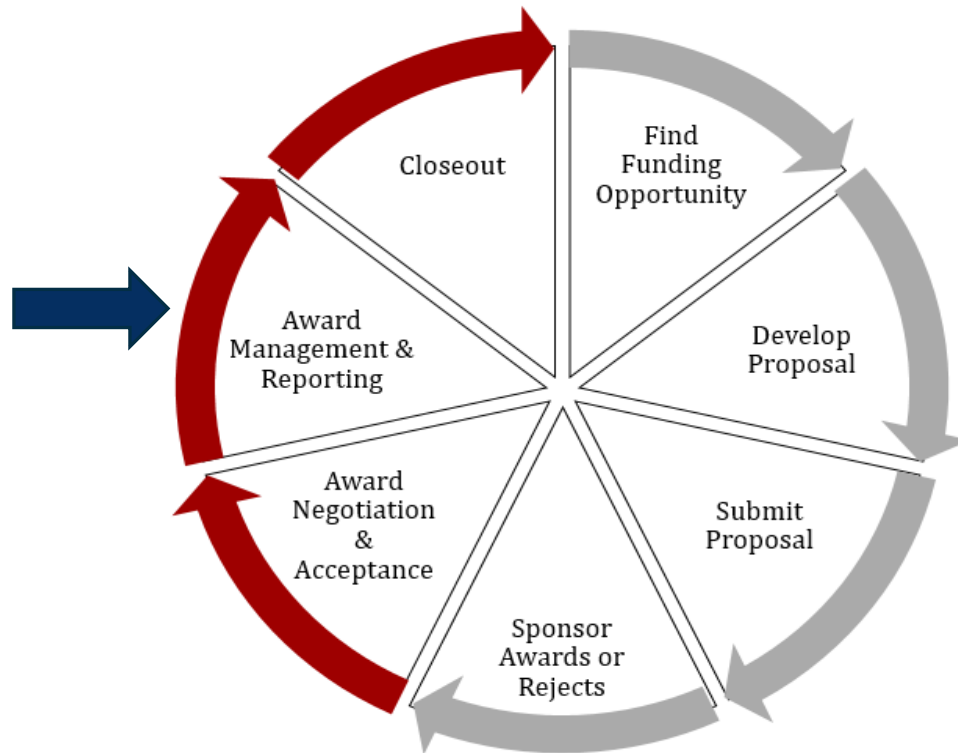
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## Agenda

- The Funding Cycle
- What are Financial Statement Reviews and Audits?
- What are the similarities and differences between them?
- How do I know if I need a Financial Statement Review or Audit?
- What happens during a Financial Statement Review or Audit?
- How can I best prepare for a Financial Statement Review or Audit?
- Internal Controls
- Real-Life Scenarios - Discussion

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# FUNDING CYCLE





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## What are Reviews and Audits?

- Financial Statement Reviews and Audits are examinations that are meant to provide varying levels of assurance for readers of your financial statements.

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# Terms to keep in mind



**Mistake** ... “wrong judgment , misunderstanding, a wrong action or statement proceeding from faulty judgment, inadequate knowledge, or inattention.”



**Fraud** ... “entails knowingly and intentionally providing false information, fraudulent documents, or false statements.”



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## What are Reviews and Audits?

- Although Reviews and Audits may uncover poor accounting (mistakes) or fraud that is not their purposes. Remember, Auditors are your friends!!!

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# Things that may come up in the audit review process:

-  Review of Costs – charging and accounting for costs
-  Review of policies/procedures – are you following your policies and procedures
-  Internal Controls – Do you have these in place?
-  Staffing questions – Related to program or managing the audit
-  Lack of Communication/Understanding
-  Human Error – Miscalculation, missing documentation
-  Management – Management of the audit process. Proactive and patient (less is more).



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## What are Reviews and Audits?

- A Financial Statement Review or Audit is not the same things as an IRS audit. You are not getting audited but rather having a Review or Audit.

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## Financial Statement Review

- Must be performed by a CPA who is independent.
- Provides only limited assurance.
- Does not test internal controls or fraud risk.
- Includes only analytical procedures, inquiries, and other procedures.

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## Financial Statement Review

- Is significantly cheaper than an audit.
- Sometimes mistakenly referred to as an audit.
- Might not meet compliance requirements.

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## Financial Statement Audit

- Must be performed by a CPA who is independent.
- Provides reasonable assurance.
- Tests internal controls and assesses fraud risk.

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## Financial Statement Audit

- Corroborate figures and disclosures included in the financial statements by obtaining audit evidence through inquiry, physical inspection, observation, third-party confirmation, examination, analytical procedures and other procedures.
- Is significantly more expensive than a review.
- Is often required as part of grant compliance or when seeking a large loan.

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## Do I need a Review or an Audit?

1. Annual expenditure of federal government funding more than \$750,000 in your organization's fiscal year (Single Audit)
2. Operating under a state government contract.
3. Required by a grant making entity or other external stakeholders.
4. Always ask if a Review can be done in place of an audit.

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## What Happens During a Financial Statement Review or Audit?

### 1. Kick-Off Meeting

A. The audit team will meet with relevant staff and ask questions to try and get an understanding of the organization and its operations.

B. After this meeting the audit team will prepare a preliminary audit plan and send staff a list of requested documents commonly referred to as a PBC list.

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## What Happens During a Financial Statement Review or Audit?

### 2. Fieldwork

A. Audit staff will spend 1-2 weeks either remotely or at the client's office obtaining documentation, observing operations, and interviewing staff.

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## What Happens During a Financial Statement Review or Audit?

### 3. Testing of Internal Controls

- A. Review of Policies and Procedures.
- B. Testing of Policies and Procedures.

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## What Happens During a Financial Statement Review or Audit?

### 4. Substantive Testing

#### A. Physical Observation:

Audit staff may physically observe fixed assets or inventory. Audit staff may also physically observe staff performing their daily accounting duties.

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## What Happens During a Financial Statement Review or Audit?

### 4. Substantive Testing (Continued)

#### B. Examination of records to support balances and transactions:

This may include donor or grant transaction details, bank statements, Accounts Receivable and/or Accounts Payable aging reports, Investment Statements, Payroll Records, etc.

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## What Happens During a Financial Statement Review or Audit?

### 4. Substantive Testing (Continued)

C. Obtaining confirmations from third parties (banks, account receivable):

Audit staff will send confirmation requests to the client's bank, investment broker, and potentially customers who owe money to the client and/or customer who the client owes money to.

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## What Happens During a Financial Statement Review or Audit?

### 4. Substantive Testing (Continued) D. Analytical Testing

Audit staff do analytical tests on the financial statements such as looking at the change in accounts year over year or looking at various financial ratios to see if they are in line with industry standards as well as other analytical tests that may be used to detect fraud in addition to misstatement.

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## What Happens During a Financial Statement Review or Audit?

- 4. Substantive Testing (Continued)
  - E. Checking calculations.

Audit staff will check client calculations or estimates to make sure they are correct and that they make sense and can be duplicated/explained by audit staff.

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## What Happens During a Financial Statement Review or Audit?

### 5. Adjustment and the Audit Opinion

Auditors may suggest adjustments to the GL if there is an accidental material misstatement.

Once adjustments are posted the auditor will prepare draft financial statements with the audit opinion. The entire point of the audit is to receive an unmodified opinion.

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## How to Prepare for a Review or Audit

**Don't wait**

Don't wait to prepare!!!

**Invest in**

Invest in accounting software.

**Hire**

Hire knowledgeable accounting staff.

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## How to Prepare for a Review or Audit

- Document all policies and procedures that relate to your accounting.
- Have a good internal control structure.
- Constantly self-audit your work.
- Ask for outside assistance when necessary.

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# INTERNAL CONTROLS AND GRANT MANAGEMENT

Having an internal control process supports the overall grant management process:

- ▶ Provides assurance that an award is managed in compliance with the award terms and conditions, regulations and statutes
- ▶ Ongoing monitoring maintains compliance
- ▶ Addressing issues of noncompliance in a timely manner is a proactive approach
- ▶ Reduces the opportunity for fraud to occur

# INTERNAL CONTROL PROCESSES

Establish an Internal Control Process to support the following Organizational Functions:

- ▶ Effectiveness and Efficiency of Operations
- ▶ Reliability of Reporting for Internal and External Use
- ▶ Compliance with applicable Laws and Regulations



Month	Value
Jan	1.17
Feb	0.99
Mar	1.50
Apr	2.59
May	2.69
Jun	2.73
Jul	2.49
Aug	2.40
Sep	2.50
Oct	2.43
Nov	
Dec	

Month	Value
Jan	9.38
Feb	8.27
Mar	7.29
Apr	6.42
May	5.70
Jun	5.35
Jul	5.01
Aug	4.54
Sep	4.11
Oct	3.79
Nov	3.51
Dec	3.16

# INTERNAL CONTROL PROCESSES



Separation of Duties –  
Management of the  
grant/grant funds



Financial Reports –  
Providing accurate  
documentation



Timekeeping and Payroll  
– Who approves this  
process? Is there a two-  
step review?



Cash Receipts – How is  
the handling of cash  
documented? What is  
the process?



Procurement/Purchasing  
– What this process? Who  
can purchase items?  
How is this documented?



Reconciliation &  
Monitoring of Accounts  
– When are transactions  
reviewed? How  
frequently does this take  
place? Monthly?



# THE AUDIT PROCESS – LET'S DISCUSS SOME REAL-LIFE SCENARIOS

-THE GRUMPY AUDITOR

-OVERSHARING INFORMATION

-AUDIT FINDINGS AND  
MANAGEMENT PLAN





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# Questions?



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