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HOW TO ACE YOUR AUDIT

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Our nonprofit clients have been receiving an increasing number of financial statement audit requests from donors, grantors, and government agencies. When our firm is asked by a prospective client to perform an audit of their organization, I typically ask, "Why do you need an audit done?" or "Is there an external party requesting that an audit be performed?" The audit process can be a large project to undertake, therefore it is important to ask these sorts of questions to ensure that audit services are, in fact, appropriate. I also explain the distinction between attestation services that can be performed to see if there is a smaller, less costly project that may serve the organization's purposes. Depending on the level required by the organization or external party's request, the organization could obtain a compilation, review, or audit.

Compilation – This type of attestation service doesn't provide any assurance as to the accuracy of the financial statements. However, it can be useful to obtain a prepared set of financial statements in a format that donors, grantors, and lenders are familiar with. Compilations can be performed by an auditor who is either independent or not independent from the organization. A compilation project is less expensive than a review or audit.

Review – Similar to a compilation engagement, the organization receives a set of financial statements in a format that is useful to the organization. In addition to the financial statements, the organization also receives limited assurance from the auditor as to the accuracy of the financial statements. In order for the auditor to provide an opinion they must be independent of the organization. A review project is more costly than a compilation but less costly than an audit.

Audit – Similar to a review, financial statements are issued, and an opinion is provided for an audit engagement. However, an audit opinion is the highest level of assurance an auditor can give.The engagement is performed with the purpose of the auditor providing an opinion that the user of the financial statements presents fairly, in all material aspects, in accordance with the applicable financial reporting framework chosen by the organization. Although this is the most common attestation our firm provides, it is the costliest in terms of time and money.

Most common pain points of an audit

Cost – An audit can be the most costly form of attestation service. Depending on the complexity of the financial statements, an audit could be anywhere from three to five times more costly than a compilation and two to four times as costly as a review. In order to provide an audit opinion on the financial statements, the auditor must gain a higher level of comfort which requires a more in-depth understanding of the organization's internal controls and risks impacting the financial statements. An audit also requires the most substantive evidence that financial transactions are recorded correctly. As you can imagine this requires the auditor to spend more time on the engagement which leads to a higher cost for the project.

Client Time – Since the auditor performs more procedures during an audit project, more time is required of the organization to prepare for the audit and respond to auditor requests. While a compilation can be performed relatively quickly, an audit requires an organization to provide supporting schedules for significant financial statement line items and provide support for transactions the auditor has selected to test

Project Time – A compilation project for a well-organized client can be performed in less than a week. Similarly, a review project can be performed in a few weeks whereas an audit may take months to perform. Organizations that are expecting a quick turnaround may be disappointed at the time required to perform an audit.

How to ace your audit

Luckily for everyone, there are ways to mitigate the most common pain points of an audit.

Monthly close – If an organization is preparing for a potential audit throughout the year, then it could make the audit project much more efficient in cost and organizational time as well as cut down the duration of the audit project. Some organizations only perform accounting tasks such as posting adjustments for activity and reconciling accounts on an annual basis as part of the audit. If these procedures are performed throughout the year, it not only cuts down on the organizational time needed for the audit but also provides more accurate accounting records for the organization throughout the year.

How to ace your audit (cont.)

Leveraging your accounting system – If an organization knows its accounting system inside and out and fully leverages it then it can make monthly close and the annual audit more efficient. We encourage clients to rely on their accounting system to handle the majority of their accounting tasks through the use of basic and advanced accounting functions. Most accounting systems have modules that can be purchased to expand their accounting capabilities. We find that organizations who have supporting schedules outside of the accounting system (i.e., in excel documents) spend more time updating and tracking down reconciliation errors than organizations who are using the accounting system to generate supporting schedules. Audits can also be more efficient if your accounting system allows you to provide read-only access to your auditors as they can review accounting transactions in detail without having to request additional schedules from the organization. If you find that your accounting system isn't robust enough to handle all your accounting needs, you may want to consider researching a different solution.

Documentation – Having great documentation can greatly impact the cost and timeliness of an audit project. The concept of an audit is having a third-party entity come in and be able to use your accounting records to recreate an accounting transaction. Poor documentation and insufficient record retention can make that process costlier and, in some cases, prevent the auditor from being able to provide an opinion which defeats the purpose of having an audit in the first place. We recommend that organizations have the mindset of transaction recreation every time they post an accounting transaction in their system. That mindset means making sure that all transactions have proper support and that the support can be obtained easily. Thinking about it in another way, the organization can ask themselves if someone were to review the transaction that was posted, would they be able to post the same transaction based on the source documentation that was used. Having that mentality will assist the organization with internal review and greatly assist auditors who will be sampling transactions that occurred during the audit period.

We hope the tips above can be used to make your audit process more effective. Anything you can do to make the audit more efficient can cut down on the cost of the audit as well as the time needed from the organization in performing the audit.

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