SAS 104-111 For Non-Profits Teleconference

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Frequent Transitional Challenges For Non-Profits, Practical Considerations

I. Common Surprises, Bumps In The Road

A. Questions frequently asked by clients

1) What is driving these eight new risk standards?

2) What exactly are controls, and how do you distinguish them from a "process"?

3) Why can't we rely on the auditor to be a mitigating control?

4) You have been auditing us for years; why are we getting these findings now?

5) These comments were in our management letter before; why are they now findings in a SAS 112 letter or included in my Yellow Book report?

6) Why is the audit costing so much more?

7) This audit is taking longer; can we meet our delivery date?

- *Tip: Communicate with your audit firm throughout the year. Rremember, we can assist and provide guidance, but we cannot implement controls*

II. Implementation Issues

A. Auditors have the task of identifying controls that are effective at reducing audit risk

1) Effective controls should either prevent or detect a problem

2) Misunderstanding on definition of "the process" vs. " a control"

3) Audit planning done in auditor's office has increased significantly

4) Heavy importance on linking the risks associated in an audit with the further audit procedures

- *Tip: Consider spreading the internal control testing to interim periods*

- *Tip: Updating your policies and procedures documentation to ensure effective controls is an ongoing process*

- *Tip: Auditors focus more attention on management's assertions over the controls; audits are not a bookkeeping and GL reconciliation exercise*

III. Management Letters Vs. SAS 112 Requirements

A. SAS 112 (communicating internal control-related matters identified in an audit)

B. Evaluating control deficiencies; get used to thinking in terms of "remote" and "inconsequential"

C. Definition of significant deficiencies and material weaknesses and "de facto" findings

D. Management letters contain control deficiencies that do not rise to the level of a significant deficiency

E. The audit risk standards require the auditor to gain a deeper understanding of the client and to find a way to reduce the risks associated in an audit:

- *Tip: Deeper understanding plus increased control testing equals potential for discovering more control deficiencies than in the prior year(s)*

- *Tip: Judgment call on defining the level of control deficiency can vary among audit firms*

- *Tip: Audit adjustments that are significant to the financial statements may result in a significant deficiency finding (i.e. a "de facto" finding)*

F. What to do with prior-year unresolved internal control findings

- *Tip: Respond to control deficiencies promptly, consider adding management's response. Unresolved significant deficiencies or material weaknesses are repeat findings in the subsequent year's audit*

- *Tip: Get to the source of the issue – how to improve on controls*

- *Tip: Understanding your internal control environment and effective controls is a daily occurrence*

IV. Other Commonplace Challenges

A. Educating the persons comprising the organization's management and those charged with governance

B. A control deficiency exists if the client does not have controls over the preparation of the financial statements, including the footnotes, which would prevent or detect material misstatements in the financial statements

C. Auditors generally will not test ineffective internal controls. This will lead to increased audit effort and potential significant deficiency findings

D. Finding ways to improve efficiency to deal with rising audit fees, given available resources