

Preparing for an Audit

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Objectives

Following this session you should be able to:

- List the benefits of good audit preparation
- Identify the key players involved in audit preparation
- Describe the audit preparation timeline
- Understand the importance of communication
- Identify important steps in record keeping and maintaining effective controls necessary for a successful audit



Benefits of Good Audit Preparation



Lower cost!



Less stress



Better outcome



Timely reports



Key Players

- Audit Committee
- CFO/VP Finance
- Accounting/treasury teams

ALSO:

- HR
- Revenue Cycle
- Payroll
- Legal
- IT

It takes a team!

Early and frequent communication is key



When Should Preparation Take Place?

- All year long!
 - Each monthly close is audit preparation
 - Will result in cleaner and faster year-end close
 - Gather audit preparation materials as part of year-end close
- Audit doesn't start when auditors arrive on site
 - Make sure preparation is complete per terms of Engagement Letter



Communication is Key!

Internal:

- With Treasury, Accounting/Finance, officers, other departments, make sure everyone knows what is expected and when
- Delegate - ask for help preparing by person most knowledgeable of each area
- Meet as a team to review audit preparation progress before and during fieldwork
- Communicate and monitor deadlines and responsibilities for each deliverable



Communication is Key!

External:

Audit committee

- Should be aware of audit plan and updated on status, not just receive reports

Auditors

- Read engagement letter - be aware of deadlines!
- Communicate frequently, at least weekly during fieldwork - make sure outstanding items are discussed
- Designate key point person for communication with auditors
- If you can't deliver, don't ignore, let the auditor know so they can plan



Communication is Key!

Audit Preparation/PBC list:

Auditor should provide detailed audit preparation list with deadlines

Provide as much as you can electronically:

However, be aware of security!

- Email is not secure!
- Auditors should have a secure portal
- Ensure compliance with Protected Health Information - scrub data and ensure security standards met
- Use a suitable tool to organize all PBC files electronically as well as deadlines and deliverables



Focus areas during year to ensure a successful audit:

- Record keeping
- Review
 - Transactional
 - Management oversight
- Financial Statements
- Reconciliations
- Checklists
- Monitoring controls



Record Keeping

Recording Transactions

- Use templates for recurring entries
- Refer to previous transactions for consistency
- Refer to accounting manual when recording non-standard transactions



Review Transaction Detail

Scan the Trial Balance every month for reasonableness and ask:

- Are there any accruals that need reversing or making?
- Are amounts in line with expectations?
- Do control accounts agree with subsidiary ledgers?
- Do any reconciling items need correcting/recording?
- Do items clear or balance if expected to do so?
- Does the TB agree with external information?
- What were the audit adjustments last year and have they been addressed?



Review – Management Oversight

Multiple levels of Management should review on a monthly basis:

- Financial statements
 - Compare to expectations
 - Compare to prior year
 - Ask questions and understand what they mean

- Cost center detail

- Budget to actual variances

These steps will help to identify material misstatements in a timely manner



Financial Statements

Preparation:

- Make sure notes agree with the statements
- Compare to accounting manual for proper presentation
- Reconcile numbers to accounting records
- Prepare a checklist for proofing financial statements
- Be aware of any changes in accounting standards
- If prepared in Excel – be aware of rounding and hidden rows not footing



Reconciliations

- Ask yourself:
 - What are the two sets of records being reconciled?
 - Does the reconciliation stand on its own with all support?
 - Is the balance what I would expect?
 - Is it the right sign?
 - Has balance changed significantly?
 - If balance should clear, are reconciling items just timing differences?
- Entering a discrepancy as a reconciling item is not a genuine solution – need to understand and correct
- If any plug items, balance is not reconciled
- Ensure reconciling items are addressed – explained or corrected



Checklists

- Closing checklist - SDA Accounting Manual Appendix 5C provides an excellent comprehensive checklist to ensure that nothing is overlooked closing.
- Audit preparation binder checklist – your auditor will provide you with a list of documents to provide in advance of audit fieldwork. As many of these schedules may be useful as you close, it is most efficient to keep this handy during closing and prepare these documents concurrently with closing.
- Financial Statement proofing checklist – if you prepare the annual financial statements, your auditor can provide you with this checklist which ensures that your financial statements meet requirements and are presented consistently.
- Core policy checklist – the core policy assertion letter, which working policy requires that you sign prior to the audit, provides a checklist of each core policy for you to review and disclose any noncompliance that you are aware of.



Monitoring Controls

- Has effectiveness of design of internal controls been evaluated?
- Are internal controls operating as intended?
- Is data produced accurate?
- Have prior-year audit recommendations regarding significant deficiencies in internal control been addressed?
- Determine corrective action where internal controls are deficient.
- SDA Accounting Manual Appendix 3A provides a framework of questions to consider in monitoring your internal controls.



Key Take Away

Effective controls and good record-keeping throughout the year are the best audit preparation and will ensure management has the information they need to make decisions with accurate timely financials.

“Prepare and prevent, don’t repair and repent”

– Author Unknown

Record keeping and controls vs. audit adjustments and qualified opinions

