

# Auditing



**Adventist Health**  
INTERNATIONAL

# Outline

- Purpose of an audit - what an audit is and isn't
- Role of Governance and Leadership in audit oversight
  - Whose job is it anyway?
  - Audit committees done wrong
  - Audit committees done right
  - Asking the right questions

What an audit is and what it isn't

# What is a financial statement audit?

A financial statement audit is:

- An *independent assessment* of the financial statements,
- Which have been *prepared by management*,
- Are fairly stated *in all material respects*,
- In accordance with *prescribed accounting framework*
- Providing *reasonable assurance*

# What is a financial statement audit?

Independent and objective:

- The auditor cannot participate in the decision-making processes of the client
- The auditor cannot reconcile accounting information or compile data for analysis
- The auditor cannot be responsible for preparation of the financial statements or footnote disclosures (can assist)

# Common Misconceptions

## Auditors:

- Do not form part of the Organization's internal controls
- Do not provide absolute assurance, only 'reasonable'
- Do not provide assurance on operating effectiveness of internal controls (except where required by statute)
- Do not provide any assurance related to existence of fraud, waste or abuse
- Do not address effectiveness or efficiency of operations

# Purpose of An Audit

- Required by Denominational Working Policy
- Provides assurance that financial statements are reliable
- Identifies internal control deficiencies (by-product)
- Requirement by most debtors or NGO grants
- Instills confidence for donors (some individual donors may require it)

# Purpose of An Audit

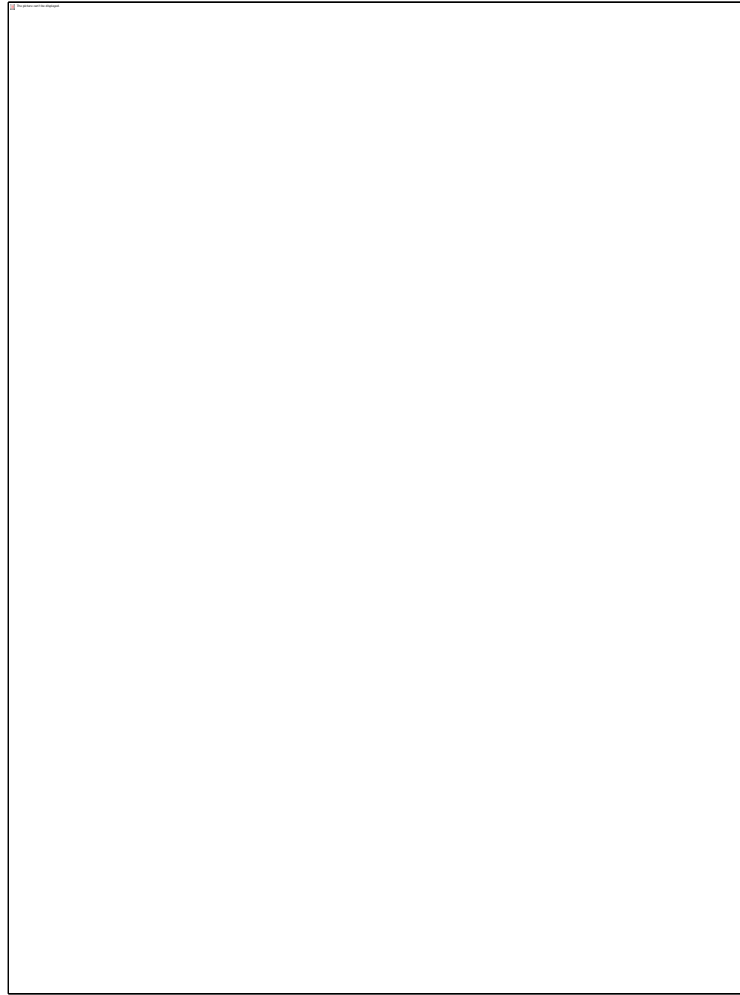
Without an audit:

- Management is making decisions with financial data that may be unreliable
- Accounting is may not be up-to-date
- Unlikely to secure external funding
- Higher Organization cannot provide effective oversight
- Finance/treasury has limited accountability





# At the Risk of Stating the Obvious...



# Audits are NOT the Purpose of Accounting

*'The auditors  
require us to do  
this...'*



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# Audits are NOT the Purpose of Accounting

- Accounting is needed in order to prepare timely financial reports
- Financial reports are needed by Management and the Board to make timely business decisions
- By the time audited financial statements are issued, it is too late to make decisions based on those financial statements!

# Audit Oversight

## Role of Governance and Leadership

# Whose job is it anyway?

**Governance** – oversight and accountability

**Leadership** – ask the right questions

**Financial Management** – Coordinate, review, remediate

**Non-finance departments** – provide requested documents

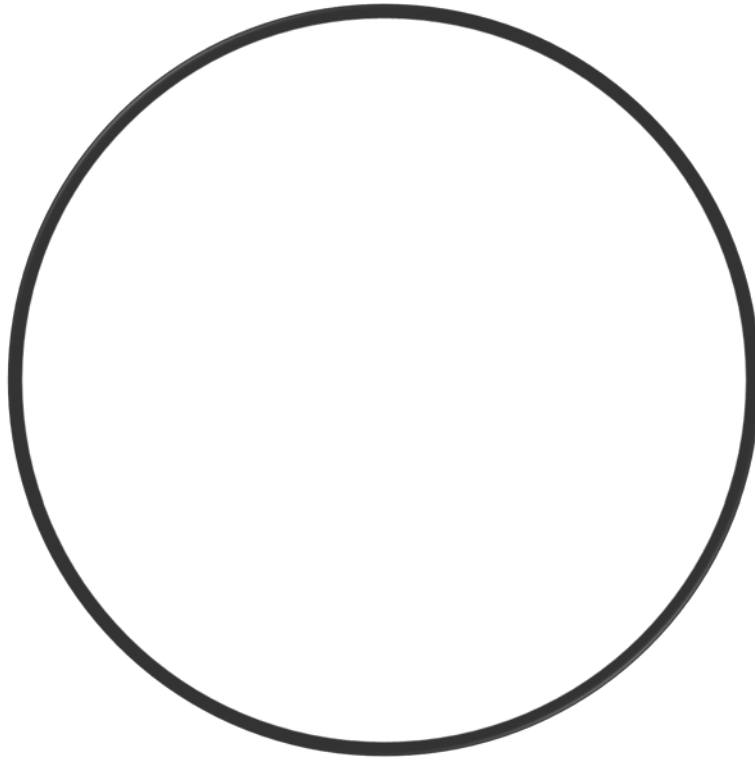
**Accounting** – Prepare, reconcile, review

# I am not an accountant or treasurer, what questions should I be asking in preparation for the audit?

- Do we have adequate policies in place?  
(Internal controls, auditing, capitalization, donations, vendor selection, authorization thresholds etc.)
- Are procedures and controls documented?
- Who is monitoring controls and evaluating their effectiveness?  
(Procedures must be operationalized, evaluated and monitored)
- Are Board actions obtained (and documented in the minutes) for decisions at appropriate thresholds?
- Am I provided with timely financial reports during the year?  
(Policy requirement! Timely month-end closes and timely monthly financial reporting are a good indicator of audit performance -if this isn't happening during the year, it won't happen at year end)

# As a Board Member or Leader

As a Board Member or Leader, the most critical thing you can do to ensure a successful audit process is:



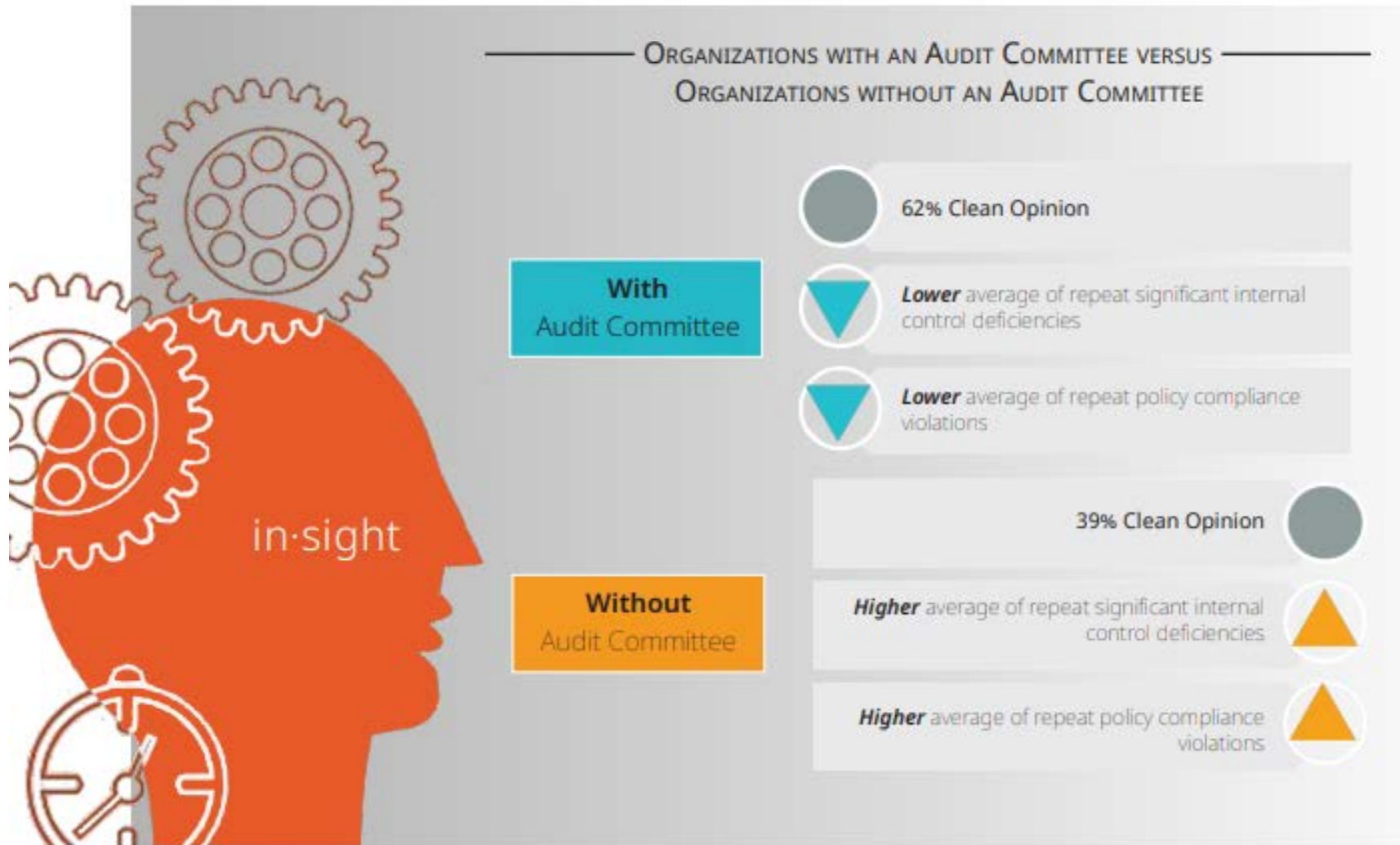
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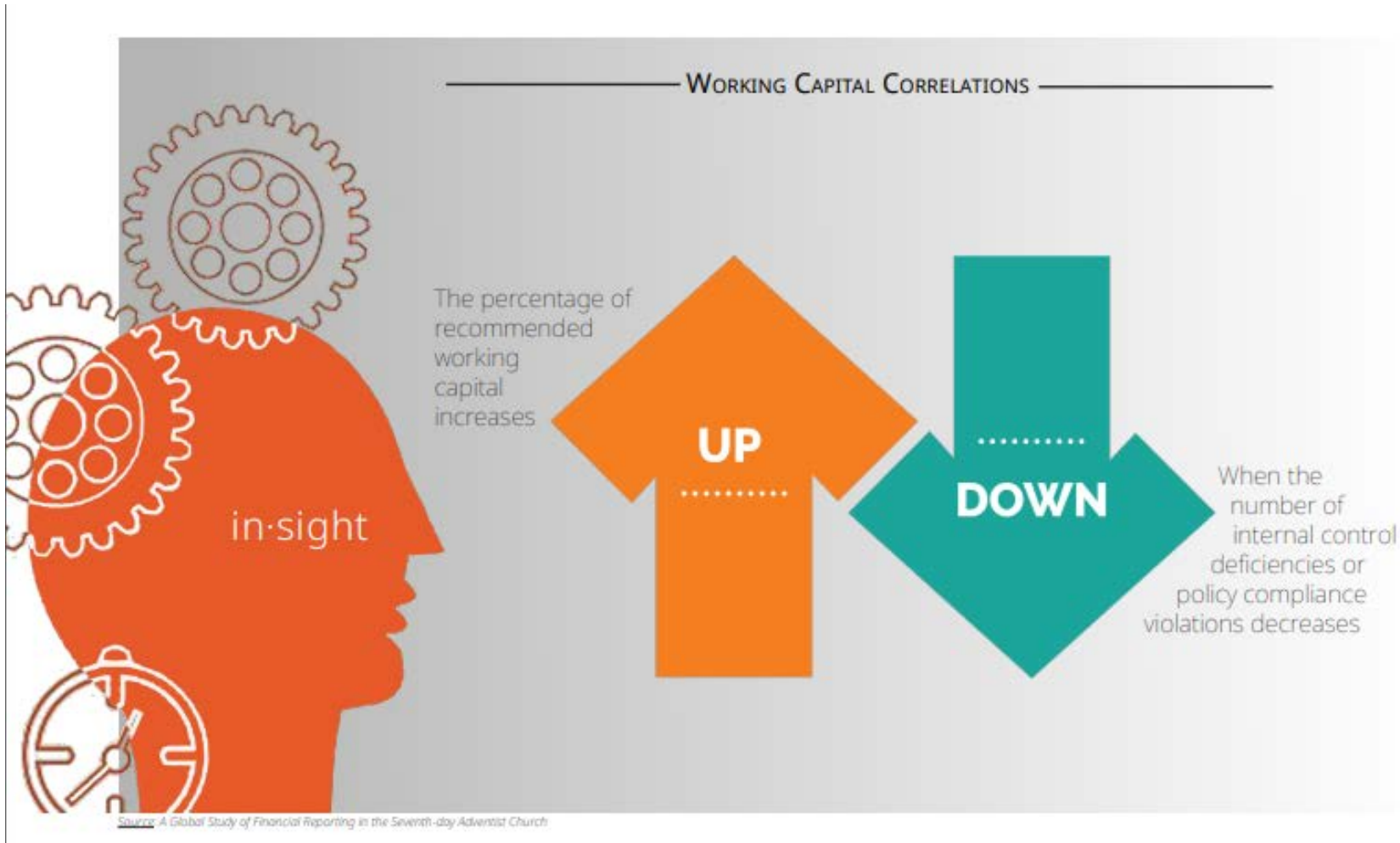
**Governance** – insist on effective Audit Committee

**Leadership** – request governance to establish effective Audit Committee





GCAS 2018 Annual Report presented to 2019 Annual Council



GCAS 2018 Annual Report presented to 2019 Annual Council

## A PERSPECTIVE ON VIOLATIONS



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GCAS 2020 Annual Report presented to 2021 Annual Council

Even Organizations that have Audit Committees often make the following mistakes...

# Audit Committee Done Wrong - 1

- Receive the Audit Report presented by Management (not the auditor)
- Meet only once a year
- Meet immediately prior to Board
- Accept audit reports without management remediation response to audit opinion/internal control issues
- No questioning of why repeat findings were not remediated

## Audit Committee Done Wrong - 2

- No Executive Session with auditor (excluding management)
- Inadequate expertise to ask probing questions
- Dominated by management invitees
- Rubber stamping process
- No consideration of risks to Organization
- No reporting on internal control effectiveness

# Common Roadblocks to Audit Committee Effectiveness

No financial expertise on Board

- Policy does not require board membership
- Board needs financial expertise!
- Lay members

Audit Committee members are unwilling to question administration

- Conflicts of interest?
- Domineering President/Board Chair?
- Cultural barriers?

Audit Committee members are employees

Invitees (employees) run the Audit Committee

# Audit Committee Done Right

GCWP S 34 05 provides a detailed outline of minimum responsibilities of an audit committee...



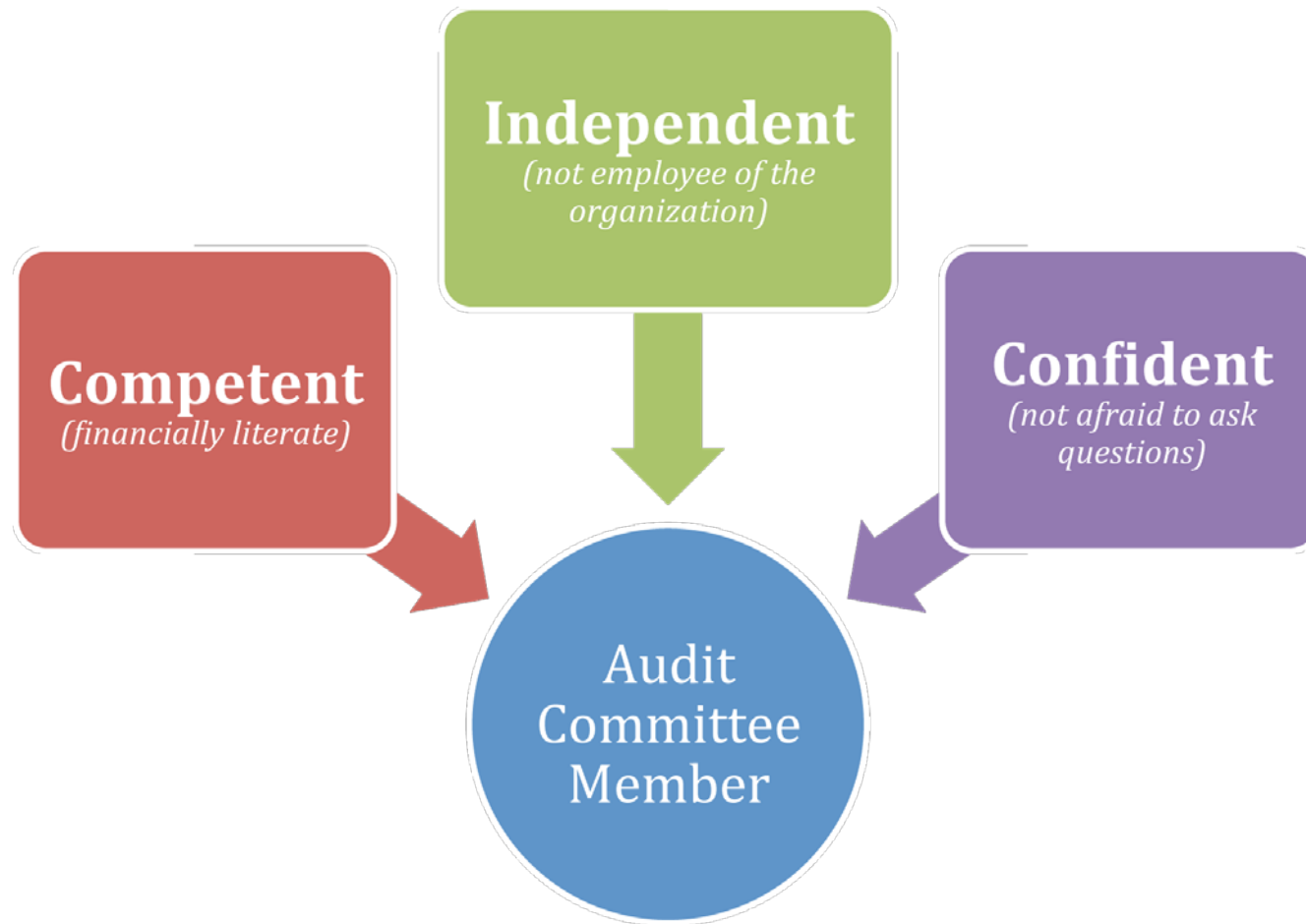
# Purpose of An Audit Committee – GCWP S 34 05

- Selection of auditor (if not GCAS)
- Agree fees and scope
- Directly communicate with auditor
- Receive and discuss with auditor the audit reports **and management response**
- **Develop and review with management adequate internal controls**
- Develop and review 'whistleblower' program
- Discuss with management compliance with core policies
- **Identify, evaluate and respond to business and fraud risks**
- Understand emerging trends in accounting and how they impact Organization

# Purpose of An Audit Committee – GCWP S 34 05

- Review any serious difficulties encountered during audit
- Provide oversight for the conflict of interest
- Hold an **executive session where members of the management have been excused.**
- Present a report to the controlling board regarding the results of the audit engagement, operational effectiveness of internal control, compliance with core policies, and potential business risks. **This report should be accompanied by recommendations for the controlling board or executive committee to consider.**

# Composition of An Audit Committee – GCWP S 34 05



# Audit Findings and Resolution

*‘If I don’t have finance expertise, how can I, as a member of Governance or Leadership of the Organization, participate in ensuring audit findings are effectively addressed?’*

As a member of Governance or Leadership,  
the best question you can ask  
related to audit findings is:

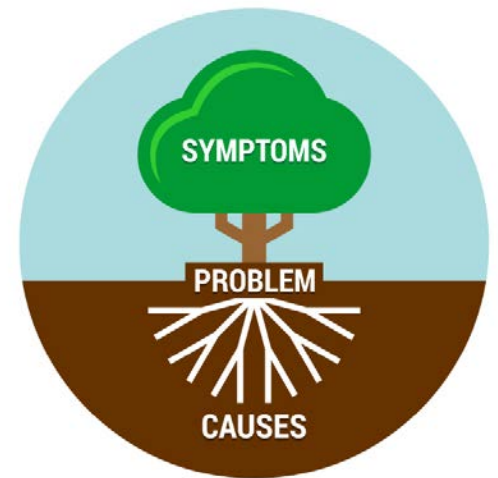
As a member of Governance or Leadership,  
the best question you can ask  
related to audit findings is:

*Why?*

# Why?

Modified opinion is a symptom of a control deficiency.  
To prevent it from reoccurring, must address the root cause

5 Why's



# 5 Why's

Example:

Qualified opinion – inventory scope limitation

Why? Auditors unable to verify physical inventory

Why? Auditors did not perform inventory observation

Why? Auditors did not attend year-end inventory count

Why? Auditors were not aware of count dates

Why? Management did not inform auditors

Why? Management forgot to inform auditors

Why? Management did not include this as a step in the year-end closing checklist

Remediation: Management added closing checklist step of making arrangements for auditors to observe year-end inventory count when scheduling year-end inventory procedures.



## Why?

*Without asking enough 'Why's', we won't be able to effectively address the root cause*



# Audit Findings and Resolution

*‘If I don’t have finance expertise, how can I, as a member of Governance or Leader of the Organization, participate in ensuring audit findings are effectively addressed?’*

You don’t have to have all the answers, but you need to ask the questions...

Thank You!