FELIX & GLOEKLER, P.C.
AUDIT PLANNING MEETING WITH
MANAGEMENT AND BOARD OF DIRECTORS

What is a financial statement audit?

The goal of the annual financial statement audit is to express opinions about whether the financial statements prepared by management, with the Board's oversight, are fairly presented, in all material respects, in conformity with U.S. generally accepted auditing standards.

Who is responsible for the financial statements?

The financial statements, notes and required supplemental information are management's responsibility. The auditor's role is strictly limited to providing users of the financial statements with an independent basis for relying upon management's assertions. Even when the auditor plays a role in drafting the financial statements, those statements remain the assertions of management. Management should designate an individual, preferably from senior management, who possesses suitable skill, knowledge or experience; to accept responsibility for the financial statements, notes and required supplemental information.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

What is the governing body's responsibility?

While management is primarily responsible for financial reporting and internal control, it is the governing body that is ultimately responsible for both. It is the responsibility of the governing body to make sure that management fulfills its internal control and financial reporting responsibilities.

To better understand the respective responsibilities of management and the Board is to compare management to students and the Board to parents. It is the student's responsibility to complete their homework assignments but the parents remain responsible for making sure they do so. So too, only management is in a position to ensure sound internal control and financial reporting, but the board is still responsible for ensuring that management fulfills these responsibilities.

What is the auditor's responsibility?

The goal of the auditor is to obtain reasonable assurance, not absolute certainty, that the financial statements are fairly presented. Consequently, auditors do not attempt to ensure that all of the data contained in financial statements are one hundred percent accurate, but rather that the financial statements are free from any material misstatements. Accordingly, auditors typically do not attempt to examine individually every transaction or event affecting an organization's financial statements. Instead, auditors perform their work on a test basis.

What standards must the auditor comply with?

Depending on the type of organization, federal or state law the auditor will use the following standards:

- Generally accepted auditing standards (GAAS) as accepted in the United States of America. Standards issued by American Institute of Certified Public Accountants.

- If the organization is a government or not-for-profit the auditor may also have to consider Government Auditing Standards (also known as the Yellow Book). The combination of GAAS and the Yellow Book standards is often referred to as "generally accepted government auditing standards" or GAGAS.

- If the organization has spent more than five hundred thousand in federal funding it may be required to comply with the Single Audit Act Amendment of 1996 and OMB Circular A-113.

Performance audit versus financial statement audit

Performance audits are designed to determine whether the organization's programs and activities are meeting stated goals and objectives, and to determine if the organization is performing duties in the most economic and efficient manner possible.

Performance audit objectives vary widely and include assessment of program effectiveness, economy and efficiency; internal control; compliance; and prospective analysis. The scope of a financial statement audit is significantly more limited than a performance audit.

The primary purpose of a financial statement audit is to provide an opinion about whether an entity's financial statements are presented fairly in all material respects in conformity with generally accepted auditing standards.

Auditor Independence

To maintain auditor independence the role of the auditor is limited as follows:

- The auditor can draft the financial statements; however, management must designate an individual to accept responsibility for the financial statements.

- Examples of activities that are considered management responsibilities and would therefore impair independence include:

    1. Setting policies and strategic direction.

    2. Reporting to those charged with governance on behalf of management.

    3. Deciding which of the auditors recommendations to implement.

    4. Accepting responsibility for the management of an audited entity project or program.

- Routine activities performed by auditors that relate directly to a financial statement audit, such as providing advice and responding to questions as part of an audit, are not considered non-audit services under GAGAS and thus do not impair independence.

Inquiries of Management and Board

1. Were there any issues during the year that could impact the audit process?

2. Did the Board receive timely and concise financial information and reports during the year? Do you or management have any concerns regarding the financial direction of the organization?

3. Were there any problem areas with employees during the year regarding behavior or compliance with policies that could impact the audit?

4. Was there any fraud or allegations of fraud during the year?

5. Were there any unusual transactions or operating results that could have an impact on the audit process?

6. Did you receive any notification from regulatory bodies that could impact the financial statements?

7. Does the Board have any questions regarding the audit or audit process?

Questions call 814-838-6095