

WE THINK WE WANT AN AUDIT...OR A REVIEW

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By: Martha A. Lindley CPA

This is common question and a common phone call. The first decision - what is the purpose? The board thinks we may need an audit, or review. Like any decision of this type – what is the need?

We want to apply for grants – this is an excellent purpose, but inquire of the grantor regarding what will they accept (in order of cost!) – a CPA prepared tax return, a review, or an audit?

We want to know if we are doing a good job - again, an excellent purpose, but it needs parameters – are we staying off bankruptcy, are our internal controls adequate to deter our employees from stealing cash, will grantors think more highly of us?

We think money is missing – the purpose of an audit is to determine if the financial statements are materially correct. If you suspect fraud, you need a forensic CPA with fraud experience and you would identify that is the purpose of the procedures. Any theft over \$50 is a felony and both the NFP and the CPA need to proceed with care.



“While certain demand headwinds are transitory, and some our cost increases are appropriate investments for the future, our recent performance does not reflect the potential of our exceptional brand and is not acceptable.” Starbucks CEO Kevin Johnson

WE ARE JUST PLAIN SPEAKING CPAS!

We think we will have more donors - this is very important. A NFP can FAIL an audit and the audit report will be “unsuccessful”. Now a good deal of time and money has been spent and the board does not wish to distribute the audit (and the auditor will have a 25% statistical chance of being terminated, though it will be 100% chance of termination in my experience). Board members may also leave for many reasons, one being perceived and/or actual personal liability due to audit failure.

We think a CPA will donate their services – regrettably, this is very rare. Since CPAs issue “opinions”, their opinion is perceived as tainted if they are not compensated. Also, if a firm specializes in NFP audits, they would not be in business if all their work was pro-bono. The Journal of Accountancy (for AICPA members) does encourage donating accounting services and pre-audit (preparing for the audit) services. Lindley and Associates LLC donated almost 25% of total services in 2017 and I would venture this is true of most firms.

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The information in this newsletter is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation. For additional information, **PLEASE CONTACT US.**

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LINDLEY & ASSOCIATES - BY THE NUMBERS

- 1) Years in business - 18 years. Lindley & Assoc has performed audits and Single Audits (SA) since 2000.
- 2) Number of SA performed - 200+. Martha, the engagement partner, has performed audits since 1993.
- 3) Number of classes taught - 100+ eight hour courses nationally by Martha Lindley
- 4) Number of auditors trained with - 400+. Martha is a former WA State Auditor, which issues all audits in

- Washington, an auditor training ground
- 5) Number of trained auditors - All! On-site auditors have specific audit CPE
- 6) Number of professional memberships - 3. AICPA, AICPA Government Audit Quality Center, Washington Society of CPAs
- 7) Years of service to the community—18 years!



WE THINK WE WANT . . . continued

1) BOARD REQUEST Many times Boards would like an outside independent CPA to perform an audit. This may be due to a long time board member, who has been the bookkeeper, or the internal bookkeeper is leaving and the Board wants some assurance that the remaining board members will not be left with problems, known or unknown.

At times, board members are scattered throughout the United States and want more assurances that an organization they have a fiduciary responsibility for has accurate financial statements.

Sometimes the board understands that in a competitive donor market, they want to put their best foot forward in a competitive setting by providing audited financial statements with grant applications and to interested donors.

Some boards request an audit to fulfill their fiduciary obligations to the organization.

2) STATE LAW REQUIREMENTS There are currently seventeen states which have imposed some regulation on nonprofits, including WA (WAC 434-120-107).

3) FEDERAL LAW REQUIREMENTS Federal law requires that any organization, government for-profit or non-profit, have a "Single Audit" if they receive over \$750,000 in federal funding (directly or indirectly) during the year. This is a specific type of audit, has specific guidance, and requires an auditor that meets the continuing education and firm peer review requirements.

REVIEW - Inquiry of management and analytical procedures applied to financial statements and footnotes of a nonprofit organization. A review is NOT, and I repeat, NOT, a mini-audit. In performing a review, the CPA performs analytical procedures and asks management a number of questions, "inquiry". The CPA obtains an understanding of the

accounting principles and practices in use, the procedures used for recording transactions, and the procedures for accumulating the financial statement information. Analytical procedures include financial comparisons, such as current financial results with prior years' results and with budgeted or anticipated amounts. The purpose of these "analytical review" procedures is to identify relationships or individual items that appear to be unusual.

The CPA does not confirm balances with banks or creditors, does not observe inventory counting, and does not test selected transactions by examining supporting documents. A review is performed in the CPAs office, not the client's office. Evaluation of internal control is not a review procedure.

AUDIT - Includes such procedures as confirmation with outside parties, observation of inventories, and testing selected transactions by examining supporting documents.

The audit objective is to gather evidence that the financial statements are materially correct. The CPA generally confirms balances with banks or creditors, observes inventory counts, and traces selected material transactions by examining supporting documents. Evidence will be obtained from three levels: outside parties, prepared by the auditor, and schedules prepared by the nonprofit. The auditor is required to "document their understanding of internal control". Testing internal control is not required.

Audit procedures take more time and cost more. Not all CPAs are auditors, and not all firms perform audits as they require a higher level of professional scrutiny by the Washington Board of Accountancy.

For full analysis of types of services, reference www.LindleyCPAS.com, tab "Martha Lindley's Newsletters" and scroll to the bottom,



“THINKING” OURSELVES HAPPY

Martha Lindley, BA Clinical Psychology

Folks tell me changing behavior is easy – you used to this and now you don't. If it was that easy, we would all weigh our goal weight, work out four days a week and eat a salad daily.

But you can change your behavior and cognition (what you think) to be happy.

Cognitions are what you tell yourself, in your inner dialogue. Aaron Beck developed cognitive behavioral therapy, a psychotherapeutic treatment to help understand the thoughts and feelings that influence behavior. So changing what we tell ourselves can change our happiness. This takes practice (identify the thought; replace that thought with a happiness thought, over and over). An example – Anne comes up to you and you can tell by her face she is mad. You anticipate her criticism of something you did. And you are thinking you are not a good friend. In actuality, people focus on themselves, so you should replace that thought with – what happened to Anne that is making her mad? It is not about you. This thought habit is so ingrained, so repeat to yourself – it is not about me, it is about her.

Beck developed the ABC Model

- A Antecedent - The situation that triggers our response
- B Belief - Our cognitions about the situation
- C Consequence - the way we feel & behave

Most of us presume it's the things that happen to us that make us feel the way we do. However, according to Albert Ellis (Edelman, 2002) we tend to blame 'A' (the antecedent) for 'C' (the consequence), when it is really 'B' (our beliefs) that make us feel the way we do. For example, if you are running late for an appointment, you may feel anxious or distressed that you are running late. However it's not running

that you are running late that is making you feel anxious, it's your beliefs about running late that are e.g. "People won't like me if I turn up late."

- D Dispute - The process of challenging the way we think

Albert Ellis proposed a fourth letter to his model, which was 'D' (the dispute). For example we could dispute the belief about running late by telling ourselves, "If I'm running late, it's not the end of the world. I'm sure they will understand."

"Happy people live in the present. They don't miss the moments that matter most. They are incredibly grateful for all they have. They focus their lives on the important and essential. They forgo the many good opportunities in order to focus on the few best ones."

Benjamin Hardy



AUDIT FATIGUE/AUDIT INERTIA

During a long audit, there is client phenomena that we call "Audit Fatigue". The client has provided document after document, only to be faced with more audit documentation requests. The initial "excitement" of the audit has passed and nothing will bring the luster back. It is so common that the experienced auditors can recognize the moment it happens. It may be related to the perception of just another audit, just another auditor, just another request.

Auditors can also tire of an audit and that is referred to as "Audit Inertia". The auditor has a lack of enthusiasm to again ask for missing information, again try to track down the person no one can find, again try to reconcile the client schedule that just does not want to "work". Auditors fight thru this by understanding the risk of audit failure by not obtaining essential information.

FLASH FILL HOW TO

By Ryan F. Kauzlarich, Senior Audit Manager

Microsoft developed a form of AI in Excel 2013 that will copy formulas or processes that you enter. Say you have two columns of names and you need to construct email addresses from them all. Just do it for the first row and Excel will work out what you intend to do and do it for the rest of the cells which have the same format. You may modify or undo the Flash Fill by clicking the Flash Fill button which appears to the right of the filled cell after it has completed a Flash Fill function. Another examples is if you had a column of full name "John Doe" in A1, in cell B1 you could type "John", then use the Flash Fill should appear and offer to separate only the first name and repeat that function on all cells below, parsing out the first name. The Pre-2013 versions of Excel this was possible but relied on a combination of functions (FIND, LEFT, &, etc).

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We specialize in not for profit organizations and government funded entities. We are committed to those agencies that provide services to our community. Our services include, but are not limited to:

- Audit and review services
- Government audits: Single Audits under Uniform Guidance and Yellow Book
- Tax services: Form 990 and Form 990 EZ preparation, including electronic filing.

We are now accepting Requests for Proposal.

INSERT - FASB CHANGES TO FINANCIAL STATEMENTS IS NOW

Lindley & Associates LLC newsletter, written by Martha Lindley CPA, provides timely articles for nonprofits. As a national speaker on nonprofit issues and Single Audit compliance, she personally writes and provides the quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community. Also available on-line at LindleyCPAS.com.



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