

PNB Audit Committee Presentation

Prepared for

The Pacifica Foundation

August 19, 2019

**ROGERS
& COMPANY**



Jorge Diaz, Engagement Principal

Rogers & Company PLLC
Certified Public Accountants

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Key Definitions/Acronyms

GAAP – Generally Accepted Accounting Principles

GAAS – Generally Accepted Auditing Standards

Internal Controls – are the mechanisms, rules, and procedures implemented by an organization to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.

Audit Scope – how deeply an audit is performed, in terms of the type, range and period of activities as well as the completeness of documentation to be examined.

Substantive Testing - selection of financial transactions involving both the balance sheet and income statement to see if an Organization has the proper evidence to substantiate the item/transaction. Support is typically in the form of invoices, bank/brokerage statements, cash receipts/deposits, cancelled checks, signed agreements etc.

Responsibilities in Audit



Auditor

- Plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- Express an opinion on whether the financial statements prepared by Management are materially correct and fairly presented in conformity with U.S. GAAP.
- Communicate specific matters to Management and the Audit Committee under regulations (adjustments, significant matters, difficulties, deficiencies, etc.).

Management

- Responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- Establishing and maintaining an effective system of controls over financial reporting, safeguarding of assets, and compliance with laws and regulations.
- Responsible for providing auditors with representations regarding the access to records, completeness of responses to audit inquiries, acceptance of financial statements and any adjustments, and other audit-related matters.

Audit Approach



- **Understanding:** Review business, operations, key controls, and environment to determine the audit scope, and extent/nature of testing.
- **Materiality:** Set materiality level (both quantitative and qualitative factors) – the magnitude of an omission or misstatement that likely influences the judgment of a reasonable financial statement user.
- **Assessments:** Made assessments about the risk of material misstatement in key audit areas, the risk of material fraud, and other qualitative aspects relevant to the audit process.
- **Testing:** Reviewed application of controls and conducted analytical and substantive testing procedures to corroborate Management's assertions.

Areas of Audit Emphasis



- **Cash and Cash Equivalents**
- **Receivables, Discounts, and Allowances**
- **Prepaid Assets and Property and Equipment**
- **Payables and Deferred Liabilities**
- **Inter-Company Transactions and Eliminations**
- **Net Asset Classifications, Endowment Reporting**
- **Grants, Contributions, and Listener Support**
- **Expenses and Cost Allocations**
- **Contingencies, Subsequent Events, Going Concern Evaluation**
- **Related Party Transactions**
- **Subsequent Events and Other Areas**

- **Required Communications to the Audit Committee:**
 - Auditors' responsibilities under GAAS
 - Documents containing audited financial statements
 - Scope and timing of the audit
 - Significant accounting policies, estimates, and disclosures
 - Consultations with other accountants
 - Uncorrected and corrected misstatements
 - Disagreements with Management
 - Representations from Management
 - Difficulties encountered in performing the audit
 - Other significant findings or issues
 - Management Letter (internal controls)

What is an Audit Committee?

Per the National Council of Nonprofits: An audit committee is either a task force or a standing committee that has been given authority by the board of directors to provide accountability for the nonprofit's independent audit. While the full board retains oversight authority, the audit committee's smaller size allows it to carry out its responsibilities in a more manageable environment. The committee is not involved in the nonprofit's daily accounting functions, but instead oversees the independent audit process which often entails hiring and evaluating the independent auditor(s). The audit committee may also be the body that is accountable to make sure that recommendations made by the auditor, perhaps in statements that appear in the auditor's letter to management, are implemented. (National Council of Nonprofits)

The creation of an effective audit committee can help nonprofits meet their accountability goal; this committee's focus is only in this area. The benefits to an organization also include improved financial practices and reporting, better deterrents to fraud, and enhanced external audit functions.

Roles of Audit Committee



- Reviews the organization's financial statements and other official financial information provided to the public;
- Ensures that reports are received, monitored, and distributed correctly;
- Oversees the organization's internal controls, including management's compliance with applicable policies and procedures and risk management;
- Oversees the annual independent audit process, including engaging the independent auditor and receiving all reports and management letters from the auditor;
- Reviews the annual information returns (IRS Form 990, related schedules, and forms) and recommends it for approval, signature, and submission by the appropriate officer;
- Reviews the organization's procedures for reporting problems. The audit committee may exercise primary responsibility to review the whistleblower policy and process, anti-fraud policies, and policy and procedures related to the discovery of errors or illegal acts, whistleblower hotline, and other communication methods.

Questions?