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Preparing for Your Audit: Expectations, Best Practices, and Pitfalls to Avoid

December 16, 2025

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MDCPA.CNF.IO

- Navigate to https://mdcpa.cnf.io and tap the session titled "Preparing for Your Audit“
- OR just point your phone’s camera at the QR code to join directly

Agenda

- Roles and Responsibilities
- Common Audit Misconceptions
- Audit Lifecycle
- Common Requested Items
- Key Financial Reporting Deadlines
- Suralink
- Confirmations

What's in it for You?

- Reduced stress ☺
- Increased efficiency
- Improved accuracy
- Understanding the "why"

Roles and Responsibilities: Management vs Auditor vs Governance

Management

- Prepare and fairly present the financial statements
- Maintain effective internal controls
- Select accounting policies and make estimates
- Provide auditors with all relevant information
- Evaluate going concern
- Comply with laws and regulations
- Sign management representation letter

Auditor

- Express an option on the financial statements
- Plan and perform the audit under professional standards to obtain reasonable assurance
- Evaluate estimates and disclosures
- Maintain independence and professional skepticism
- Communicate findings and recommendations

Governance

- Set tone at the top
- Engage and oversee the audit process
- Review the audit findings, corrective action, and monitor compliance

Common Audit Misconceptions & Myths

Myth	Fact
Auditors look at everything.	Audits use risk assessment and sampling to focus on what matters most, not every transaction or document.
Auditors are responsible for fixing our accounting.	Auditors can point out issues, but management is responsible for corrections and decisions.
If it wasn't requested, it isn't needed.	Follow-up requests are normal as risks emerge; it's not "scope creep."
We should wait until fieldwork to start preparing.	Early preparation and staged uploads dramatically shorten fieldwork and reduce stress.
No findings mean everything is perfect.	An audit provides reasonable (not absolute) assurance and focuses on material items; some issues may still exist.
Audits are designed to detect all fraud.	Audits reduce risk to a lower level but do not guarantee detection of all fraud or errors.
Auditors are responsible for preparing the financial statements.	Management is responsible for preparing and fairly presenting the financial statements.

Audit Lifecycle

Planning

- Confirm engagement terms, schedule, and timelines.
- Understand entity, environment, and internal control (inquiry, observation, inspection)
- Communicate with governance
- Identify and assess risks
- Define audit strategy and risk responses (including IT and Single Audit, if applicable)
- Select samples for fieldwork
- Share PBC list and kickoff details

Fieldwork

- Perform tests of controls
- Substantively test balances and transactions
- Perform analytical testing
- Accumulate and evaluate misstatements and control deficiencies

Reporting

- Draft the financial statements
- Quality control reviews
- Communications of audit results to management and governance

Wrap-Up

- Evaluate subsequent events through the report date.
  - Obtain any remaining board minutes.
- Obtain the management representation letter
- Issue final deliverables

Commonly Requested PBC List Items
Data Best Practices

- Export data to editable formats (CSV/Excel/Word) to provide for data analysis
- Capture report parameters and period on the report or as a separate screenshot
- Include report totals that tie to the GL if possible
- Use consistent field names
- When sending large datasets, provide a data dictionary for ambiguous column headings that describe the data in those columns.

Commonly Requested PBC List Items
Internal Controls

Updated Internal Control Narratives

- Ensure all process descriptions reflect current practices, including staffing or application changes.
- Changes to the evidence of control performance.

SOC 1 Reports

- Needed for key service providers (e.g. payroll processing, investments)
- User Control Considerations

User Access Reports

- A definition of user roles with permissions

Commonly Requested PBC List Items
Account Updates & Reconciliations

- New cash, investment, debt accounts
  - Used for confirmations

- Account reconciliations for balance sheet accounts.
  - Common issues include:
    - Stale reconciling items
    - Does not agree to trial balance due to adjusting entries
    - No evidence of review
    - Voided checks recorded across accounting periods

Commonly Requested PBC List Items
Agreements & Contracts

- New Agreements
  - Lease agreements or SBITAs
  - Bond or loan agreements
  - Contracts with vendors
  - Grant Agreements
    - Single Audit (if applicable) – Need SEFA
  - Large vendor or service provider contracts
- Maintain an “audit folder” of new agreements.
- Talk to your auditor if you have accounting questions.

Commonly Requested PBC List Items
Trial Balance & Budget

Common Issues

- Fund balance doesn't agree to the PY audit
- Interfunds don't balance
- Missing routine J/Es

Avoid These Issues

- Post audit entries and proper cutoff
- Balance interfund monthly
- Develop a pre-close checklist

Other Procedures

- Review budget vs. actual
- Review PY actual vs. CY actual
- Research and document large variances

Commonly Requested PBC List Items
Pension and OPEB

- Pension and OPEB
  - Coordinate w/ actuary and verify census data is accurate
    - Valuation – Needed every two years
    - MMO valuation – Needed annually to determine annual contribution
    - GASB 68/75 – Need annually for all plans. For multi-employer plans report establishes government share of pension liabilities (assets), DO, & DI

Commonly Requested PBC List Items
GASB Adoptions

Find New Standards

- Visit www.gasb.org for the latest pronouncements.
- Look at the prior year audit report. Commonly found in the "Summary of Significant Accounting Policies" footnote.

Best Practices

- Review new GASBs early
- Assess impact on the financial statements
- Assign responsibility for tracking/adoption
- Update policies and procedures
- Consult your auditor

Resources

- GASB Implementation Guides
- Professional webinars (GFOA, MD Seminar)

Commonly Requested PBC List Items
GASB 34 Conversion: Fund Basis vs. Government-Wide

Item	Fund Basis (Modified Accrual)	Government-Wide (Full Accrual)
Capital Assets	Recorded as expenditures when purchased; not capitalized or depreciated. Full sale proceeds as "other financing sources".	Capitalized and depreciated over useful life; additions/disposals reflected in asset balances. Only gain or loss from a sale is recognized.
Long-Term Debt	Proceeds recognized as "other financing sources"; repayments as expenditures.	Full amount of debt (principal) recorded as a liability; repayments reduce liability; interest accrued.
Leases (Capitalized)	Lease payments shown as expenditures; no asset/liability recognized.	Right-to-use asset and lease liability recognized; amortization and interest expense recorded.
Long-Term Accruals	Accrued items (e.g., compensated absences, legal contingencies, pension/OPEB) generally not recognized unless due and payable.	All long-term accruals recognized as liabilities; expenses accrued as incurred.
Receivables (Beyond 60 Days)	Only receivables "available" within 60/90 days of year-end are recognized as revenue.	All receivables recognized, regardless of collection period; revenue recognized when earned.

Commonly Requested PBC List Items
GASB 34 Conversion: Examples of Items to Prepare

Long-Term Assets

- **Capital Assets:**
  - Buildings, land, infrastructure (roads, bridges), vehicles, equipment
  - Documentation of additions, disposals, and depreciation schedules; capital asset rollforward that ties to the GL
- **Lease Assets:**
  - Right-to-use assets for capitalized leases (e.g., office space, equipment)
  - Lease Agreements and asset register with amortization that ties to the GL.

Commonly Requested PBC List Items
GASB 34 Conversion: Examples of Items to Prepare

Long-Term Liabilities

- **Debt Issuances:**
  - Bonds, notes payable, loans (including new issuances and outstanding balances)
  - Amortization schedules and refinancing details
- **Lease Liabilities:**
  - Lease payment schedules and terms for capitalized leases
- **Pensions & OPEB:**
  - Actuarial reports for pension and other post-employment benefits

Commonly Requested PBC List Items
GASB 34 Conversion: Examples of Items to Prepare

Accruals & Adjustments

- **Long-Term Accruals:**
  - Accrued Interest, Compensated absences (vacation/sick leave), claims and judgments
  - Provide documentation from legal counsel, PTO/Sick time accrual schedules, amortization tables
- **Receivables Beyond Fund-Level:**
  - Property taxes, grants, or other receivables collectible beyond 60 days after year-end (not recognized in fund-level statements)

Commonly Requested PBC List Items
Capital Assets – Common Errors

Failure to record disposals

- Assets no longer in service remain on the schedule

Incorrect Classification

- Capital asset purchases classified as repairs and maintenance or small tools.
- Repairs & maintenance capitalized, not following capitalization policy
- CIP assets that have been placed in service

Unreconciled Balances

- Capital Asset detail does not agree to the GL

Depreciation Errors

- Incorrect useful lives
- Depreciation greater than asset basis
- CIP assets in service, but depreciation did not commence

Commonly Requested PBC List Items
Capital Assets – How to Avoid Errors

- Use built in application general ledger modules.
- Regularly reconcile the fixed asset detail to the GL
- Periodically review expense accounts for missed capital items
- Update policies and train staff

Commonly Requested PBC List Items Initial Audits

- Authorization to access predecessor audit workpapers
- Review prior year documentation for opening balances and accounting policies
  - Confirmation of opening balances
- Request key accounting policies, contracts, and internal control documentation

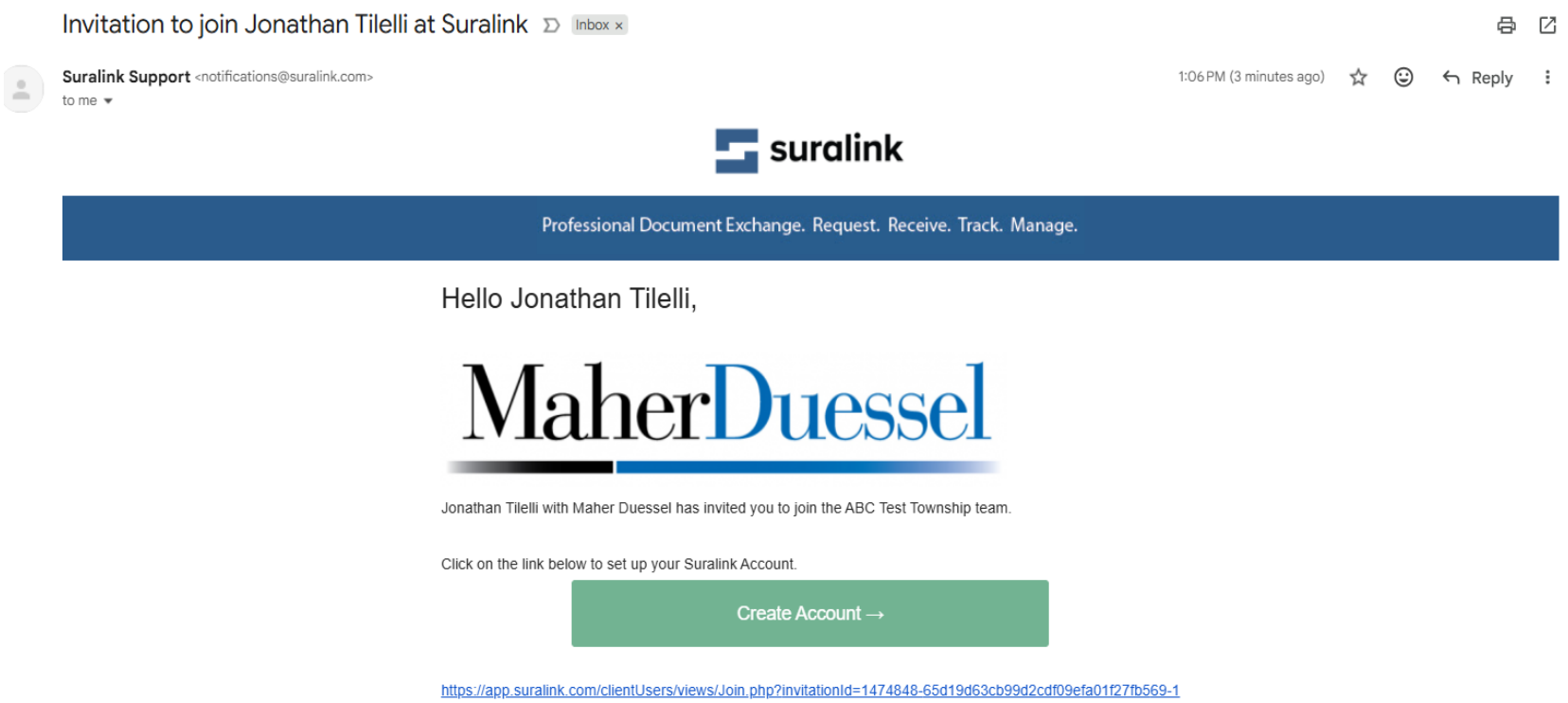
Key Financial Reporting Deadlines

- DCED Filing Deadlines
  - Cities, Boroughs, and Townships – Due April 1
  - Municipal Authorities – Due 180 days after year end
- ACFR
  - 6 months after year end if pursuing GFOA Certificate of Achievement, unless extended
- Single Audits
  - Due to the Federal Audit Clearinghouse by the earlier of
    - 30 days after receipt of the auditor's report
    - Nine months after fiscal year end
- EMMA
  - Stipulated by your continuing disclosure agreement, typically 180 days after fiscal year end

Maher Duessel Advisory Services

- Things we can do to help!
  - Accounting Standard Implementation Assistance
  - GASB 34 Financial Statement Assistance
  - Financial Audit Management
  - Account Reconciliation and Journal Entry Support
  - Financial Statement Preparation
  - Internal Control Evaluation

Suralink
Invitation Example



Invitation to join Jonathan Tilelli at Suralink Inbox ×

Suralink Support <notifications@suralink.com>
to me

1:06 PM (3 minutes ago) Reply

suralink

Professional Document Exchange. Request. Receive. Track. Manage.

Hello Jonathan Tilelli,

MaherDuessel

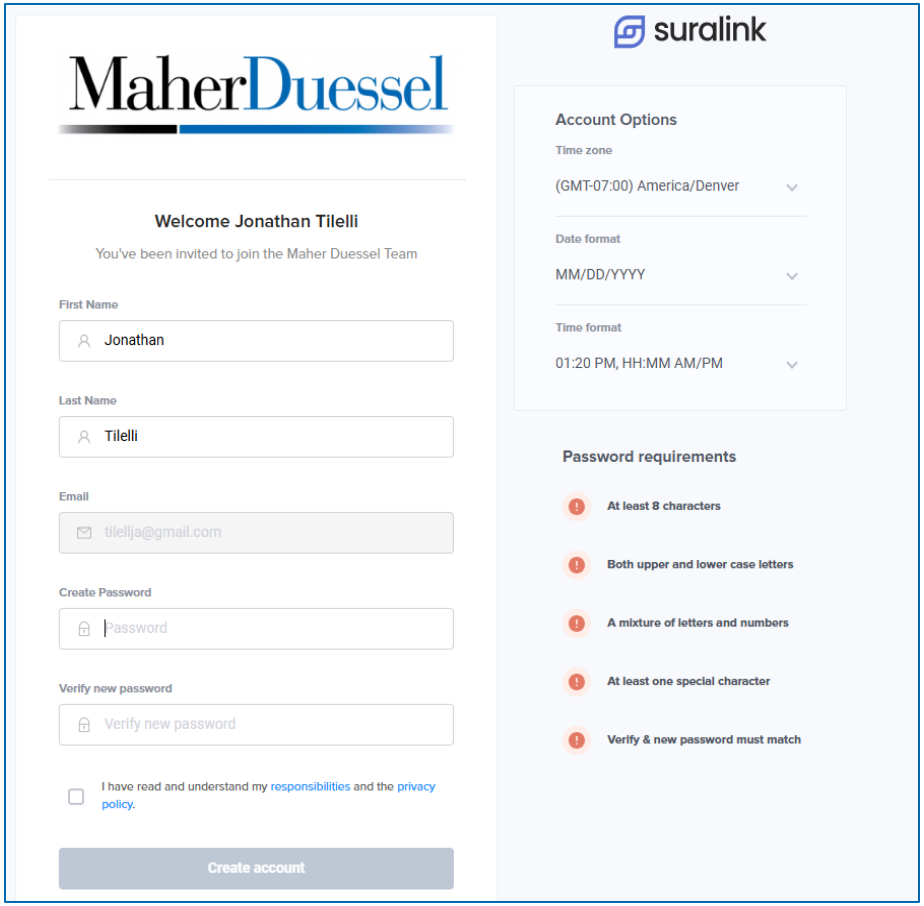
Jonathan Tilelli with Maher Duessel has invited you to join the ABC Test Township team.

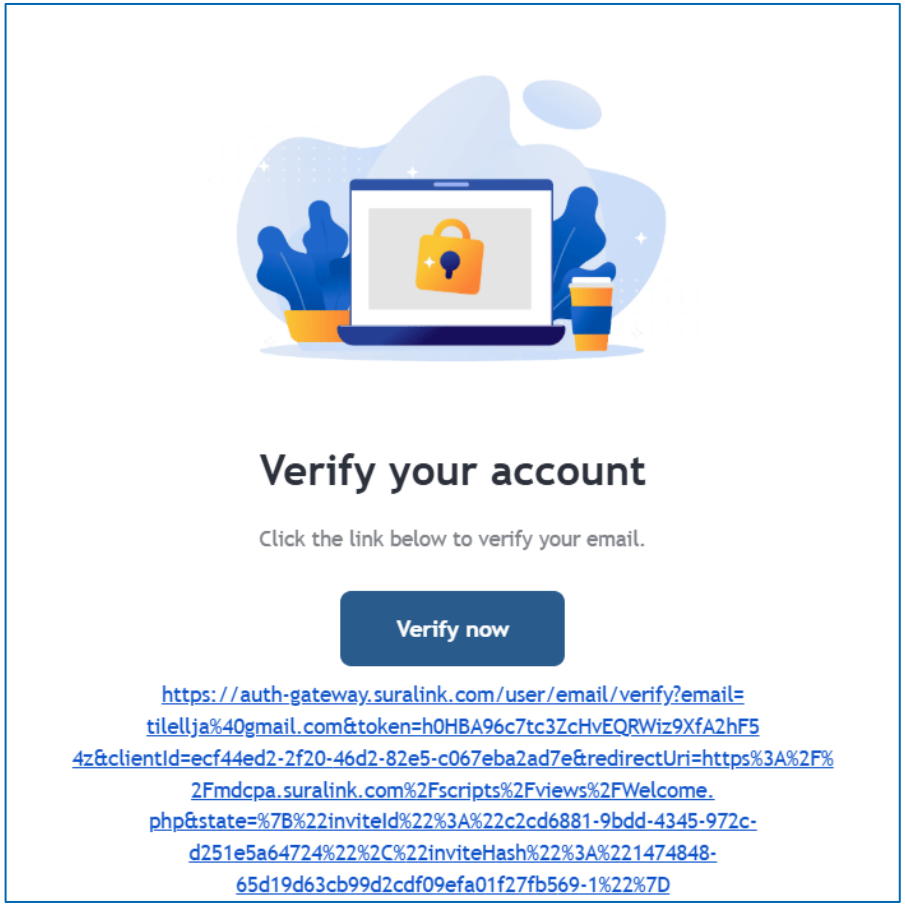
Click on the link below to set up your Suralink Account.

Create Account →

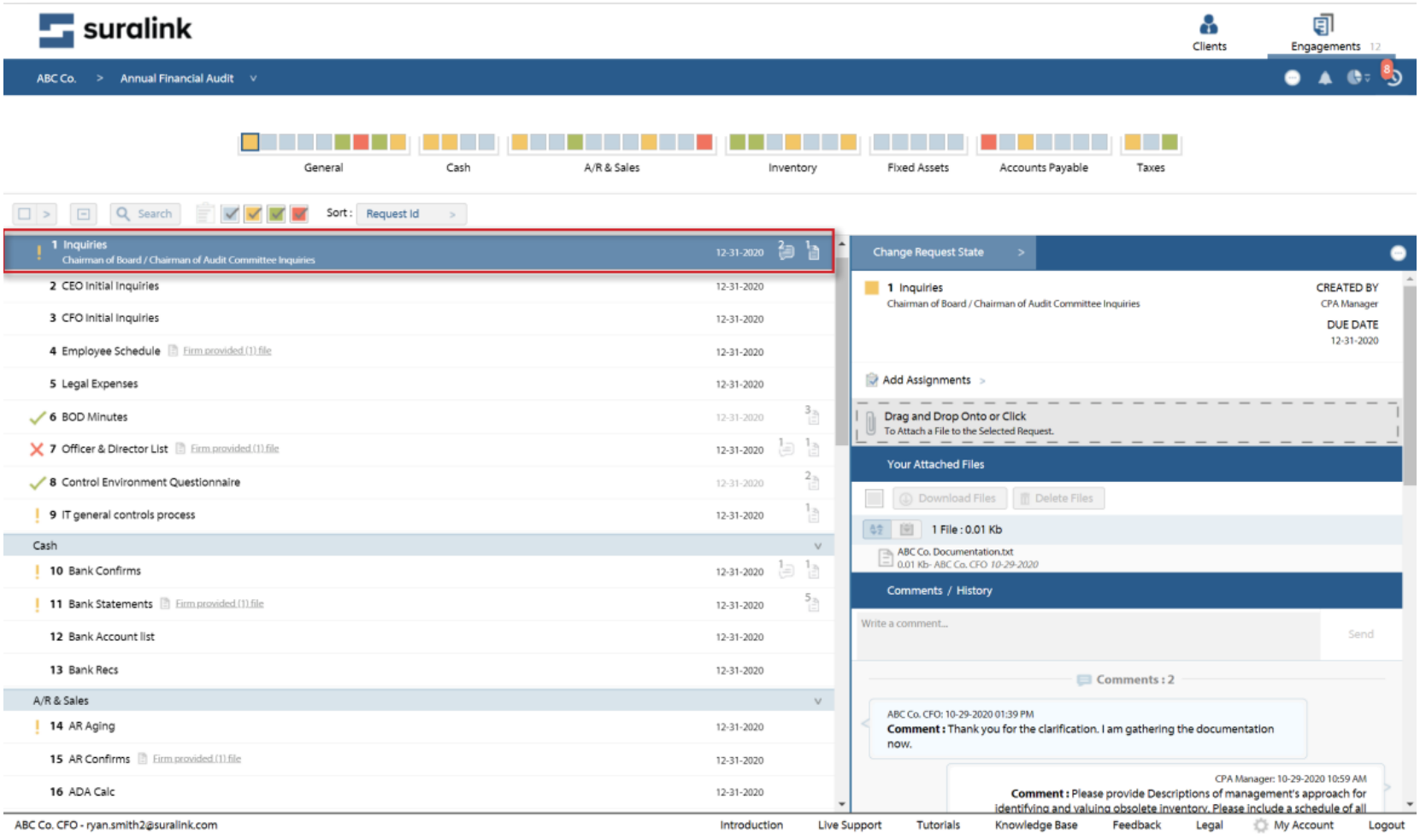
https://app.suralink.com/clientUsers/views/Join.php?invitationId=1474848-65d19d63cb99d2cdf09efa01f27fb569-1

Suralink
Initial Setup





Suralink – Screen Overview



Suralink
Best Practices

Auditors

- Update the status of requests so that the client and engagement manager know what has been accepted and what is still outstanding
- Lock down sensitive requests such as payroll information or information with PII
- Set due dates when possible that align with scheduled interim and fieldwork dates

Clients

- MD only retains data for one prior year engagement
- Mark items fulfilled as you provide them and upload to the request item in Suralink to avoid confusion or duplicate requests
- If something is N/A, mark the request fulfilled and leave a comment on the request
- Update and personalize settings to control the frequency of email reminders
- Consider compressing large files to save time uploading

Confirmation.com

- Secure, efficient platform for audit confirmations
- Required by many banks for cash, debt, and investment confirmations
- Clients: Respond promptly to authorization requests, provide accurate contacts, check junk mail for authorization request
- Auditors: Plan ahead and review accounts to verify it is up-to-date and doesn't include closed accounts

Confirmation.com

- Under current AICPA GAAS, external confirmations are risk-based procedures; there is no blanket requirement to confirm cash for all audits.
- Proposed change: The AICPA ASB's 2025 exposure draft would make external confirmation of cash/cash equivalents presumptively mandatory (with limited exceptions and required documentation), targeted for periods ending on or after Dec 15, 2027 (early adoption permitted).

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Please do not reply to this email.

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Your electronic authorization is required

[client full name],

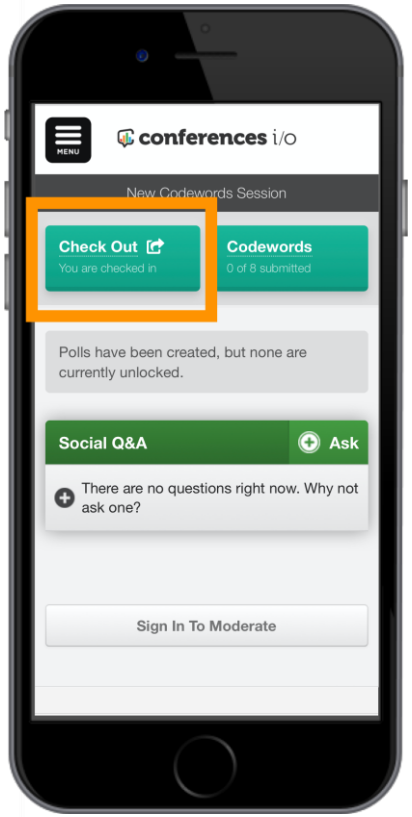
[auditor name] at [accounting firm name] requires an electronic signature to provide authorization to complete your financial statement audit.

This authorization allows your auditor to request information deemed relevant to the completion of your financial statement audit. **Without this authorization, your auditor cannot request or obtain information from third parties on your behalf using Confirmation.com.** You have 90 days to provide your authorization. Read about our User Agreement here.

Sign Authorization

This client authorization applies to the following companies:
Company Name
[Company Name 1]
[Company Name 2]

Don’t Forget To Check-Out Before You Leave!



Questions? Contact Me!

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Reach out to explore how our Accounting and Advisory Services can support your organization's mission.