



Staci A. Henshaw, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

## University of Virginia Board of Visitors – Entrance Conference Agenda June 3, 2021

### 1. Introductions

### 2. Audit Objectives, Audit Plan and Audit Roles:

- a. **Auditor of Public Accounts (APA) audit team and resources** – David Rasnic - Project Manager for UVA Academic Division, Eric Sandridge - Project Manager for UVA Medical Center Division, Jeff Finke - Auditor In-Charge for UVA Academic Division, Scott Booker and Gary Gammon - Auditors In-Charge for UVA Medical Center Division.
- b. **Audit timing** – We will begin fieldwork in June and conclude in November to provide support for the Commonwealth of Virginia’s Annual Consolidated Financial Report (ACFR). Our Audit will cover the audit period July 1, 2020 through June 30, 2021. We anticipate exiting with the Board of Visitors at its regularly scheduled meeting in December.
- c. **Audit objectives** – Our audit objectives are to determine if the financial statements present fairly the financial position, changes in financial position, and cash flows for the period in conformity with accounting principles generally accepted in the United States of America. We will also determine if disclosures in the financial statements are adequate and fairly stated, whether management has appropriately reviewed the financial statements, whether adequate internal controls exist over material account balances and transactions, and whether the agency is in compliance with applicable laws, regulations, and provisions of contracts or grant agreements. These objectives will enable us to provide an opinion on the University’s financial statements that will be included with the financial statements that are distributed by the University. We will provide a separate opinion on the Medical Center’s financial statements included in the financial statements distributed by the UVA Medical Center. Additionally, we will issue a combined report on internal controls and compliance that will include any findings or recommendations that we may issue as a result of the audit. We will follow up on any recommendations included in the prior year report to determine whether the institution has addressed any previously communicated deficiencies, as applicable. Lastly, we will complete agreed-upon procedures and issue a report that includes a schedule of financial activity related to intercollegiate athletics. This report is due to the University by January 15th and will be published and distributed in February or March 2022.
- d. **Statewide single audit support** – Federal funding received by institutions in the Commonwealth of Virginia is subject to the Single Audit Act. Code of Federal Regulations, Title 2, Section 200 describes the requirements for compliance and the associated audit requirements. The Student Financial Aid cluster is considered a major program under the audit requirements of 2 CFR 200 for fiscal year 2021. Compliance testing over the CARES Act Provider Relief Fund will also be performed in fiscal year 2021, and funds received from the Higher Education Emergency Relief Fund (HEERF) are subject to audit and will be tested if UVA spending makes up a significant portion of statewide Education Stabilization Fund spending. Any recommendations or noncompliance meeting reporting thresholds defined in 2 CFR 200 will be included in the institution’s audit report and the statewide Single Audit report.

- e. **Overview of the relationship between APA, internal audit, and foundation auditors** – The APA is the Commonwealth of Virginia’s independent external auditor responsible for annual financial statement audits of public agencies and institutions, and various other required audits. The APA reports to the Virginia General Assembly. Internal Audit is responsible for the institution’s audit workplan as approved by the institution’s Board of Visitors. Foundation auditors are responsible for the financial statement audits of the various foundations. We make reference to the work of these auditors in our financial statement opinion, but we generally do not take responsibility for the work of these auditors. Most foundations are presented as discretely presented component units in the institution’s financial statements.

### **3. Discussion of Risk with Board Members**

The APA encourages the Board of Visitors to provide input regarding the risks they perceive to the University in completing its mission. While Board members can direct their comments to the Audit Committee Chair or the Internal Audit Director to be forwarded to the APA Project Manager, we also plan to meet directly with the Audit Committee Chair. We will discuss the following issues:

- Any areas of fraud risk
- Any areas of institutional risk
- Any matters that the Board believes should be considered in planning

### **4. Required Communication with Board (See Attached Summary)**

## **Required Communications with the Board**

### **Terms of the Engagement**

#### ***Responsibilities during the audit process:***

#### **1. The Auditor's (APA) Responsibilities**

##### **Overall Audit Objectives**

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and standards for financial audits contained in the *Government Auditing Standards*. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

##### **Audit Procedures-General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable, rather than absolute assurance, about whether the financial statements are free of material misstatement whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*.

##### **Audit Procedures-Internal Control and Compliance**

Our audit will include obtaining an understanding of internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, we will communicate in writing to management and those charged with governance any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit. Also, as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants

## **Audit Procedures – Group Audits**

Our audit will include obtaining an understanding of the consolidated group, sufficient to assess the risks of material misstatement of financial information derived from significant components to design the nature, timing, and extent of further audit procedures, including the basis for the decision to make reference in our audit opinion to audits of significant components performed by other auditors.

## **Those charged with governance**

We are responsible for communicating significant matters related to the financial statement audit that are, in the auditor's professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. GAAS do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

## **2. Management's Responsibilities –**

Our audit will be conducted on the basis that Management **acknowledge and understand that they have the following responsibilities:**

- Preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America
- Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Identify and ensure compliance with applicable laws, regulations, contracts, and grant agreements
- Informing the APA about all known or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements
- Informing the APA (and others as required by the Code of Virginia § 30-138) of knowledge of any allegations of fraud or suspected fraud affecting the University received in communications from employees, former employees, regulators, or others
- As received, forward copies of each federal audit performed on agency or institution programs or activities to the Auditor of Public Accounts as required by Chapter 1289 § 4-8.02 a. of the 2020 Virginia Acts of Assembly. To forward these reports to the Auditor of Public Accounts, use APAFederal@apa.virginia.gov. If the federal report is only available in hardcopy or contains FOIA exempt information, DO NOT email the report, use this same email account to notify the Auditor of Public Accounts of the federal report and provide the contact information of the individual with the report.
- Informing the APA of any potential documents that are FOIA exempt
- Ensuring that management is reliable and financial information is reliable and properly recorded
- Making all financial records and related information available to the APA
- Providing the APA with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence
- Responding to audit findings and recommendations, as well as providing your planned corrective actions and the timing and format for providing that information

- Providing the APA at the end of the audit with a written letter confirming certain representations made during the audit
- Adjusting the financial statements to correct material misstatements and providing the APA with a representation that the effects of any uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
- For Group audits, management is responsible for the following:
  - Informing the component's management of any matter that the group engagement team becomes aware that may be significant to the financial statements of the component, but of which component management may be unaware.
  - Implementing procedures to determine if there are subsequent events for components through the APA's audit report date.
  - Implementing procedures to identify and disclose the component's related parties and related party transactions.
  - Implementing policies and procedures related to the consolidation of group financial information.

### 3. Audit Committee

- Communicate with APA about audit scope
- Communicate with management and internal audit regarding progress
- Receive reports and findings from management and external audit

#### *Other Elements of the audit process:*

#### Overall planned scope of the audit

- **Approach to internal control** – We review internal controls to identify those areas where we can replace substantive testing with transactional testing. We look for management to have written formal policies and procedures and check for the implementation of those procedures.
- **Concept of materiality** – We do not review all transactions or accounts in detail. We use materiality to focus our work on those financial statement line items and those transactions that are material or significant to the University.

#### Identification of potential fraud risks

- **Approach to fraud** – Most of our audit is focused on our opinion on the financial statements and materiality. Our primary interest related to fraud would be in how it may affect the financial statements and those controls that the financial statements rely upon. The audit is not designed to detect error or fraud that is immaterial to the financial statements. However, we review policies and procedures for fraud risk and may direct our testwork towards addressing fraud risk.
- **Responsibility for identifying fraud risks and fraud** – Auditing standards require us to assess fraud risk, interview management and staff about their knowledge of fraud and fraud risk, and review exceptions for indications of possible fraudulent transactions. Auditors should be looking for red flag fraud indicators. Even though government entities are not always profit oriented, the auditors remain vigilant about financial statement fraud.

- **Report fraudulent transactions as required by Code of Virginia § 30-138** Agencies are responsible for reporting circumstances that suggest a reasonable possibility that a fraudulent transaction has occurred involving funds or property under their control, where an officer or employee of the state or local government may be involved. Items should be reported to the Auditor of Public Accounts, the State Inspector General, and the Superintendent of State Police.

### **Audit Reporting**

We will issue a written report upon completion of our audit of the University's financial statements. We will make reference to the component auditors audits of the University's discretely presented component units in our report on the University's financial statements. Our report will be addressed to the Board of Visitors. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph(s). If our opinions on the financial statements are other than unqualified (unmodified), we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by Government Auditing Standards. The report on internal control and compliance will include a statement that the report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose