

THE NONPROFIT AUDIT POCKET GUIDE

A handy guidebook for before, during, and after the audit process



Click the sections below to navigate

1
OVERVIEW >>

2
PREPARE >>

3
AUDIT >>

4
POST-AUDIT >>

AUDIT TIME, AGAIN? ALREADY?

Yes – and if you’re dreading your annual audit, dread no more!

Because, an audit is intended to help, not hinder your nonprofit and its mission. It’s an effective means for you to review your organization’s financial condition, and confirm everything’s in order. If anything’s amiss, look at it as an opportunity to strengthen your policies and recordkeeping and improve your overall fiscal health.

At its best, an audit can instill confidence among donors, ensure compliance with accounting standards, and help protect your organization against fraud.

The experts at Abila have put together this guide to help make short work of your audit preparations and ensure you have a better overall audit experience.

LET’S GET STARTED.



Click the sections below to navigate

1
OVERVIEW >>

2
PREPARE >>

3
AUDIT >>

4
POST-AUDIT >>

BE PREPARED

The best advice for the soon-to-be-audited comes from the Boy Scouts of America whose motto is: “Be prepared.”

Be prepared with everything the auditors are going to need as they begin their work, and for anything they may require while they're doing the job.

And, what exactly is everything and anything? It all falls into three categories: **people, processes, and paperwork.**

PEOPLE

Want your audit to proceed quickly and smoothly? Make sure someone's in place to help make that happen. Assign an individual (or a small team if the scope of the audit warrants it) who will:

- Coordinate the auditors' scheduling. (When are they coming? How long will they stay?)
- Organize documents for the auditors to review. (See “Paperwork” section below.)
- Manage the actual onsite visit. (Plan for their parking; provide them with a quiet, private place to conduct their work; ensure they have strong WiFi access; manage other logistics; and be available to address questions or concerns that may come up.)

PROCESSES

Auditors primarily examine financial records and practices to assess your organization's financial position. This will go a lot more smoothly if you can easily:

- Demonstrate strong internal controls over access to financial resources
- Provide an audit trail that clearly tracks transactions to sources of revenue
- Produce reports that quickly and efficiently show use of grant funds and other relevant activities

It helps if you have financial systems in place designed to facilitate these processes – with granular control over how people access financial systems, auditability of your general ledger and system logs, configurable alerts, and other robust capabilities.

If your systems don't make it easy to do these things, be prepared for some extra effort on your part to be ready for the audit process. (Prepare, too, for the possibility the audit results may show some concerns regarding your controls.) (continued on next page)

✓ TIP:

Clear the decks! Don't schedule other major events at the same time as your audit, and make sure everyone knows when and where it's taking place.

Click the sections below to navigate

1
OVERVIEW >>

2
PREPARE >>

3
AUDIT >>

4
POST-AUDIT >>

...continued from previous page

PAPERWORK

They say the devil's in the details, and if the documentation requirements for an audit are any indication, that's absolutely true.

Conduct a Google search on the topic of audit documentation requirements, and you'll find links to a multitude of lists compiled by CPAs, consultant groups, and others involved in nonprofit audits. You can also expect the auditors will have their own list of exactly which documents they need to review.



In the meantime, the National Council of Nonprofits' list of items for auditors' review is a good, comprehensive guide.

Start by pulling together:

- Bank statements and reconciliations
- Investment summary showing YTD transactions and year-end balance
- Documentation of donor pledges, donated securities, grant funds received
- Fixed asset and depreciation schedule
- Year-end accounts payable and expenses

And, be prepared to do much more, based on the Council list and your auditors' specific requests.

✓ TIP:

Don't delay! The sooner you start collecting audit-related documents, the less likely you'll end up playing Beat the Clock to get everything together in time.

Click the sections below to navigate

1 OVERVIEW >>

2 PREPARE >>

3 AUDIT >>

4 POST-AUDIT >>

STEP BACK, STAND BY, STAY COOL

Audit scheduled? Check. Internal team lined up to coordinate everything? Check. Everything in order? Check.

All you have left to do is get out of the way and leave the auditors to their work.

What are the auditors doing, exactly?

Basically, the auditors are there to ensure your organization's financial statements accurately reflect your actual financial state. To that end, they'll likely:

- Review financial records to be sure they adhere to generally accepted accounting principles (GAAP) and fairly present your financial position
- Examine internal controls for weaknesses that might increase the risk of error or fraud in financial operations, including compliance risk
- Look at how funds come in and go out to ascertain you're using donor and grant money the way it was intended

What can you expect to learn from their work?

Essentially, you're going to get an opinion as to whether your financial statements fairly present your financial position.

✓ TIP:

Stop worrying! Just remember, an "unqualified opinion" report – the one everyone hopes for – is the most common outcome of any audit.



Click the sections below to navigate

1
OVERVIEW >>

2
PREPARE >>

3
AUDIT >>

4
POST-AUDIT >>

NOW WHAT?

After the audit, the organization's leadership and financial teams (and the board's audit committee, if there is one) have a clear set of steps to follow.

1. Ask questions:

Review the auditors' draft report and letter to management. If the auditors uncovered any serious issues, ask them to explain their concerns and recommendations in detail.

2. Consider possible initiatives:

Auditor concerns are typically around process weaknesses or operating inefficiencies. These may be minor, earning the organization a "qualified opinion" report, or more serious, resulting in an "adverse opinion."

Either way, you'll need to address the weaknesses. Obviously, the specifics depend on your organization and your audit report, but here are a few examples to think about.

- If auditors cite **weak internal controls**, can you find ways to shore them up? For example, would an accounting system

with an auditable system log provide better transparency into financial activities? Do you need a more proactive fraud detection system?

- And, if auditors cite **operating inefficiencies**, what would improve operations? Again, just as examples: Would it help to be able to track funds by grant in the General Ledger to avoid the risk of double-dipping? Would you reduce your risk of financial errors if you could corroborate activity directly from your system, instead of having to use a spreadsheet?

3. Present the final report to the board:

Before the meeting in which the audit report and management letter are presented, the board will receive a copy of both – in plenty of time to look over the results. You should be prepared for questions, or at least for a discussion of the findings.

✓ TIP:

Ask for help! Enlist your auditors' support for new initiatives to improve controls and operations.

Click the sections below to navigate

1
OVERVIEW >>

2
PREPARE >>

3
AUDIT >>

4
POST-AUDIT >>

ADDITIONAL RESOURCES

To gain access to more on the nonprofit audit process, check out additional resources from the American Institute of Certified Public Accountants (AICPA):

Not-for-Profit Governance & Management Resources

About AICPA Not-for-Profit Section:

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