

# Best Practices for Your Nonprofit Audit



An audit need not be painful, **IF** you prepare for it. Here's some of our best advice for making your next audit painless and using it to align your organization's financial practices with your mission.

## Before You Begin: Selecting the Right Auditor

Work with your board, especially the finance or audit committee, to define key attributes you want in an auditor, and to plan your selection process. In particular:

- Talk to peer organizations for overall guidance and to get specific referrals.
- Allow plenty of time to plan and execute a request for proposals (RFP), if needed.
- Look for auditors with relevant experience. If you're a small membership-driven organization, don't use an auditor who specializes in large grant-funded nonprofits.
- Find out what level of detail your auditors will provide. Just the basics to satisfy reporting requirements? Or a comprehensive analysis that compares you to peers?
- Ask your auditors how they can help you if they happen to uncover fraud.

## Planning and Preparing for Your Audit

To ensure your audit goes smoothly, you want to plan ahead as much as possible and keep things as simple as possible for your finance team and auditors. To help the process:

- Collect relevant documents and figures year-round.
- Establish a clear timeline and work milestones with your auditor.
- Hold a kickoff meeting that includes both the audit staff and your own finance team, so everyone is in sync about timetables and duties.
- Prepare electronic and hard copies of an "audit binder" with standard documentation for bank accounts, investment accounts, fixed assets, payroll, and so on.
- Designate one person – probably your controller – as the single point of contact for when the audit team has questions.

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## Keeping Your Audit Costs Down

Audits are easier when they're more efficient and less costly. You can achieve this when you:

- Work around your auditors' busy season
- Make the audit as easy as possible, for example, by organizing materials in advance
- Avoid changing auditors unless you have a pressing reason to do so

## What Your Auditors Are Looking For

As they assess your organization's financial position, auditors essentially look at how money comes in and goes out, and whether you handle it appropriately in between. They want to see:

- Strong internal controls over access to money and records to prevent mistakes or fraud
- An audit trail that clearly tracks transactions to sources of revenue
- Reports that clearly show how funds are used, and other relevant financial activities

## How the Right Technology Helps Your Audit

Your audit will go more smoothly if your systems enable:

- Granular control over how your personnel access financial systems
- A fully auditable general ledger
- Automation of business rules to prevent errors and fraud
- Clear classification of restricted and unrestricted net assets
- Quick generation of profit and loss statements and other reports for individual grants
- Easy access to documentation

## What to Do After the Audit

Once the auditors have completed their analysis and submitted their final report, or opinion letter, to your board or audit committee, it's time to address any concerns.

- If auditors cite weak internal controls, shore them up, for example, by using an accounting system with auditable system logs or a more proactive fraud detection system.
- If auditors cite operating inefficiencies, consider what would improve your finance operations. For instance, you may need better tracking of funds for each grant.

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## Getting Ready for Next Year's Audit

Here are a few ideas to start being proactive right now to avoid last-minute stress next time:

- Keep an audit file for documents typically examined in audits.
- Maintain a file of restricted donations.
- Segregate cash and non-cash donations in the general ledger throughout the year.
- Continually evaluate your recordkeeping to identify opportunities for improvement.

## New Audit Regulations for 2018 and Beyond

New rules from the Financial Accounting Standards Board (FASB) will kick in for most nonprofits by 2020. Talk to your auditor or accountant to understand the new requirements for:

- Revenue recognition
- Lease standards
- Financial statement preparation

For all the details on sailing through your audit with flying colors see our **Guide: Nonprofit Audit Workshop 2018**.



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## About Abila

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