

Is Your Organization Audit Ready?

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Whether you are facing an audit for the first time or you have been audited for years, making sure that your organization is ready might feel a bit overwhelming. Here are a few tips that will help you get organized and ready for the first, or just the next, audit.

First, what is an audit (and what is it not)? The purpose of an audit, as defined by the American Institute of Certified Public Accountants (AICPA), is "to provide financial statement users with an opinion by the auditor on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An auditor's opinion enhances the degree of confidence that intended users can place on the financial statements." An audit provides reasonable assurance, not absolute assurance, that the financial statements are correct (not materially misstated) within a defined threshold. The AICPA provides a set of standards that all audit firms are required to follow to achieve the appropriate level of assurance to issue the opinion. But an audit is not just a generic set of checklists. The auditor creates a tailored set of procedures based on a gained understanding of your organization that will mitigate the risk of material misstatements in your financial statements.

What might cause you to need an audit for the first time? New funding sources, whether debt or grants, may require an organization to submit financial statements audited in accordance with generally accepted accounting principles. Therefore, before any new grant or debt is signed, make sure someone in the accounting department is reviewing the requirements thoroughly. A first-time audit is not something you want to be surprised with!

During the COVID-19 pandemic, your organization may have taken on new debt that requires an audit. In addition, you may have received funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act or other pandemic-related funding that may require an audit under Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). To understand if the funding you received is subject to the Uniform Guidance, you should review the Assistance Listing [available online](#) or contact the funding source.

So, how can you ensure that your organization is prepared for the first audit? Follow these 10 steps:

1. Gather all of your organizational documents and significant contracts into one central location (preferably electronically), including:
 - Articles of Incorporation
 - Bylaws
 - Corporate Operating Agreement
 - Internal Revenue Service (IRS) exemption determination letter
 - IRS Form 1023 or 1024
 - Applicable state tax determination letters
 - All significant contracts (customer/grants/leases/vendor/pledge agreements)
 - Board minutes from the year(s) under audit
 - Commercial insurance policies
 - Trust agreements (annuities, life insurance policies, split-interest agreements, etc.)
 - All pension and post-retirement plan documents

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- Legal titles for real property owned
 - Corporate organizational chart
 - Staff organizational chart
 - Organization policies and procedures manuals
 - Other organizational documents
2. Document your key financial statement processes and policies. During the documentation process, consider if your organization has proper internal controls and if the performance of those controls is adequately documented. Remember to consider your controls and policies over information technology systems that support your accounting records.
 - For guidance around internal controls, certain resources are available from the [Committee of Sponsoring Organizations of the Treadway Commission](#) or the Green Book published by the [U.S. Government Accountability Office](#).
 3. Compile a list of related parties, including related entities, and clearly document the relationship with each related party, including a listing of any related agreements between the parties.
 - Consider consulting with your legal counsel (internal or external) to ensure all legal relationships are properly documented.
 4. Review your accounting records and ensure that reconciliations are available for any balance sheet account as necessary to reconcile sub-ledger data (or any data maintained outside of the ledger) to the trial balance.
 5. Ensure that transactional data from the period under audit (proof of expenses, sales, contributions, or payroll records) is organized and available for testing as requested.
 6. Ensure that a full schedule of all property and equipment, and related depreciation and amortization, is available.
 7. Obtain sample audited financial statements of similar organizations. Review the financial statements to gain an understanding of what data to have available to produce the required footnote disclosures. Sample financial statements can be found on the [GuideStar nonprofits website](#) or on the [Federal Audit Clearinghouse website](#) (if the nonprofit was required to have an audit performed in accordance with Uniform Guidance).
 8. Facilitate a meeting with the audit team and those individuals you have designated as your financial governance committee (audit committee, finance committee, board of directors, etc.) to set expectations and discuss specific risks related to your organization.
 9. Hold a meeting with the audit team and your management to discuss timing and specific items that you will need to prepare based on the tailored approach prepared by the auditor. Finalize the timeline of all deliverables to ensure that your financial statements will be issued by the date required. Once you have received the specific list of items to be prepared by the organization, hold an internal meeting to assign responsibility for each task and consider how the information will be organized and reviewed prior to delivery to the auditor.
 10. If your organization has inventory, ensure that you invite the audit team to the year-end count or the next scheduled perpetual count.

With careful consideration of these steps and allowing adequate time for your team to pull and organize this information, even a first-year audit should run smoothly.

And for recurring audits? In addition to Tips 8 – 10 above, consider:

- After the initial audit, the relationship with your audit firm shouldn't be just the yearly audit. Keep in touch throughout the year to discuss changes in your strategies, funding, processes, etc. so your auditors can advise if there are any potential accounting or compliance issues you should consider. A nonprofit's financial statements are often public documents, so checking in on how new events and transactions may impact your audit and financial statement presentation can help mitigate unwanted surprises. Talk to your auditors about any changes in accounting controls or any new funding streams that might impact compliance requirements.
- Stay informed about any changes to legislation, accounting pronouncements, or other compliance updates that will impact your organization's financial statement presentation or compliance rules. While it is often assumed that it is only the auditor's job to keep up with changes, management is ultimately responsible for all the information in the financial statements and, therefore, should have a working knowledge of requirements. Keeping up with the changes will also ensure that the accounting system and records are set up to produce the required information the auditors will need to audit your organization's adoption of new standards.

Once you've hired your firm of choice (and before any recurring engagement), you should:

- Stay organized! Create a logical electronic filing system to ensure that you can easily locate the information that has been requested and your team has prepared. Then, keep the files until the following year for reference.

The COVID-19 pandemic required many organizations to move office personnel to a remote environment. Some localities are still under shelter-in-place mandates, and some organizations have chosen not to bring the full team back into the office. In all likelihood a portion, if not all, of your audit in the coming months will be handled remotely. The keys to a successful audit under COVID-19 pandemic restrictions are communication and flexibility. Here are some additional considerations as you prepare for a remote audit:

- Review what, if any, changes have occurred in the internal control processes to accommodate remote working. Are there changes in the check writing or depositing process? Are there changes to approval controls? Discuss these changes with your auditor ahead of the scheduled audit.
- Discuss with your auditor what file repository system will be utilized for the remote sharing of data from your organization to your auditors in a secure manner. Ensure that the filing system will meet the cybersecurity requirements of your organization.
- Discuss the timeline with your auditor well in advance. Consider if additional time may be required for your team to transfer physical files to electronic copies.
- Consider using video technology to allow for the auditor to observe processes through the digital environment and allow for “in-person” meetings and interviews throughout the audit. An auditor could potentially even use digital methods to conduct a physical inventory count observation.
- Consider safety protocols that your organization and the audit firm will require if in-person work or meetings are considered necessary. Ensure that each team understands the legal and organizational requirements for protective equipment and social distancing protocol.

The word *audit* can often be a source of fear and dread. However, if you follow the tips above, your organization can be audit ready. An organization that is well prepared will see the audit process as a helpful tool for financial health and not an exhaustive exercise in pulling data. Communication with your auditors has always been important, but with the current COVID-19 restrictions, both communication and flexibility will be even more critical to a smooth audit process.

At CapinCrouse, there are many options for how we can approach your audit work.

Thanks to our investment in technology over the past few years, our entire workforce was already equipped and trained to work remotely, allowing us to maintain the level of service our clients have come to expect.

As always, we encourage you to reach out to your engagement team any time you have a question. We are here to help.

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