

PREPARING FOR AN AUDIT

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Definition: An audit is an examination of an organization's financial statements by an independent certified public accountant (CPA).

Who's Required To Have An Audit: Nonprofits audit requirements vary by state. For example, Nonprofits with charitable contributions greater than \$300,000 are required to submit audited financial statements to the Pennsylvania Bureau of Charitable Organizations within 135 days after the end of their fiscal year.

Preparation: To be well prepared for an audit, you should:

1. Review the auditor's prior year recommendations to ensure any significant weaknesses have been addressed. Also review the auditor's prior year adjusting entries to see if any corresponding adjusting entries need to be made for the current year.
2. Ask your auditors for a list of reports and documents they'll need for the audit, which will probably require you to assemble:
 - Trial Balance and/or General Ledger Bank confirmation requests
 - Bank statements and reconciliations
 - Reconciliation of activity in balance sheet (and sometimes income statement) accounts
 - Board meeting minutes
 - Updates to internal control procedures
 - Grant acceptance letters
 - New contracts and leases
 - Bills for fixed asset additions
 - Lists of vendor bills and customer invoices (including outstanding A/P and A/R) to enable the auditor to select items for review or confirmation
 - Reports of transactions subsequent to year end up until the audit report date
 - Bank statements and reconciliations subsequent to year end up until the audit report date
 - Draft financial statements, footnote disclosures, and/or Statement of Functional Expenses
3. Be prepared to discuss:
 - Changes in governance, management, ownership, and personnel

- Changes in operations and technology
Economic/industry developments and their impact on your operations
- Estimates used in the financial statements, such as allowance for uncollectible accounts
- Significant variances versus budget and prior year Non-compliance with credit agreement covenants

Regulatory or legal actions Independence: To maintain independence, your auditor is not allowed to prepare these documents. If your organization is unable to prepare the documents internally, then it may be prudent to hire outside an accountant (like Bookminders) to assist in the audit preparation.