



# Why an audit is good for your organization

**Done properly, it will affirm the things you are doing right and point out ways to increase efficiency and results**



You meet a friend whom you haven't seen for a long time. "You look well," they tell you. Most of us would return the compliment, but few — if any — of us would take it as a medical opinion.

Yet, more and more nonprofits are making this very mistake everyday when it comes to their balance sheets. They are staking their organization's future on what is known as a reviewed financial statement rather than a bona fide audit.

It's easy to understand why. Resources are tight and audits can be somewhat expensive. Management wants to be as cost-effective as possible.

Besides, many people don't know the difference between a financial review and an audit. Both require an accountant to poke around your records and the result of each procedure is a financial statement that looks basically the same. But though they may appear the same, that's where the similarities end.

## **What is a review?**

A review is really just a once-over of your financial statement done by a qualified accountant to give you a limited assurance that your finances are appropriately displayed. It is similar to a physician looking you over and saying, "You look fit." It's useful, but it's limited.

For instance, a review won't help you understand anything about the efficiency of your organization or the soundness of your internal accounting controls and procedures. And it won't answer that important question most executives and their constituents ask: "Are we doing it right?"

This question is answered by the audit.

## **The usefulness of an audit**

An audit is an eye-opening examination of your organization's procedures and controls, head-to-toe, inside and out. It isn't a reconciliation of your bank accounts. It isn't a statement that everything is OK. And it isn't a fund-raising device.

It involves an experienced professional laying your organization out on the table and delving inside to find out just how well it is running.

But an audit doesn't only deliver bad news. Done properly, it will affirm the things you are doing right and point out ways to increase efficiency.

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**By Del Goehner**





### Why have an audit?

You may not have a choice. Sometimes compliance laws demand it. But you may just want to make sure you're doing everything as efficiently as possible. This is especially important for nonprofits, as overhead continues to be a major factor in determining where donors give.

## It is not the job of the auditor to prepare your financial statements. The auditor's task is to give an opinion concerning the soundness of those statements.

So why do organizations lean toward reviews and away from audits? Why are people reluctant to go see a doctor? The first and foremost reason usually is cost. An audit can seem expensive. However, when weighed against the benefits, the outlay can often easily be recouped.

And there are ways you can reduce the cost of an audit. About 30 to 40 percent of the typical audit fee is caused by the client's own failure to prepare. A little effort beforehand can slash about a third off the average auditor's fee.

Other reasons organizations don't choose audits are just as simple.

- Many executives don't know the differences between an audit and a review.
- Many are comfortable with their organization's performance. They don't see any visible signs of sickness, and they're not sure they want to find any.
- An audit can uncover uncomfortable shortcomings and point out difficult changes that should be made. Like going to the doctor, most of us would rather just avoid the whole experience if possible.
- Many executives know they should audit, but just never get around to it. When they do, it's usually after some sort of dramatic event that lands them in the organizational equivalent of the emergency ward.

### Finding the right auditor

Most begin by weighing price vs. quality. While you don't want to break the bank, you also don't want to shortchange yourself or your organization. There is a question of stewardship here and the old axiom generally holds: "You get

what you pay for." So carefully consider the value of your organization's health before you come up with a dollar figure. But there are some other considerations besides cost.

What are the auditor's qualifications? This is easy to check. Ask for references and to see the results of their latest peer review. All accountants who conduct audits and reviews must submit to this periodic test. It will tell you how your candidate rates in the eyes of other accountants.

Also, ask if they are familiar with your type of organization. If so, they'll be more likely to know where to look for waste and have more suggestions on how you can improve efficiency.

Finally, it is imperative to find an auditor who can be independent and objective. Remember, you're going through this process to better your organization. So you want the straight scoop. You wouldn't go to a doctor who gave only good news,

would you? Find someone who can tell it like it is.

### Preparing for an audit

As we discussed earlier, it is not the job of the auditor to prepare your financial statements. The auditor's task is to give an opinion concerning the soundness of those statements. So make sure your statements are in order. Also, the auditor will want to dig deep to verify that the information in the statements is realistic. Be sure to have documentation to back up as much as you can.

Now, you may find that your organization's internal staff is not adequately skilled to assemble the relevant documents. In this instance you have already uncovered a possible weak spot, and you may want the auditor to organize your records this one time. Or you may take it as a signal that you need the help of an accountant on a full-time basis. Whatever the case, the more you can prepare yourself, the more your auditor will be able to focus on the task at hand, which is a complete examination of your organization.

### What to expect

The auditor will evaluate and test several critical areas by asking questions such as:

- Do the assets represented in the financial statement really exist?
- Are the assets valued properly or have proper allowances been made?
- Is your information complete?
- Do the processes and procedures you are using paint a realistic picture of your organization?

The auditor will also confirm financial amounts >>





by obtaining outside written verification with third parties and making internal inquiries, in addition to reviewing performance ratios.

By demanding at least adequate evidence to support the financial reports, the auditor will be able to confirm that the numbers before you accurately reflect what is really happening inside your organization.

At the conclusion of the audit, you will have in your hands an audited financial statement. Technically, this will look just like a reviewed financial statement — balance sheet, income statement, cash flows and notes — but the scope of the work that supports the audited statement will be completely different.

Inside the numbers and columns

you will find, among other things, an analysis of your organization's efficiency and ways to improve it. In some cases, automation may be presented as a way to consolidate procedures and cut costs. And you will get confirmation on specifics such as your withholdings methods. For instance, are you accounting for your independent contractor like an employee? Well, the IRS thinks you shouldn't, and in the end it could cost you as much as 75 percent of the contractor's original fee.

After the audit, you should have the answer to your question, "Are we doing it right?" And if that answer is no, you should have the information and ideas you need to create a plan of action to make sure you get it right.

A financial review is good, as far as it goes. But only through an audit will you find out what is truly going on inside your organization.



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