

Nonprofit Notes

Is Your NFP Prepared for Its Financial Statement Audit?

By Thomas Kelly, CPA, Senior Manager and Andrew M. Musci, CPA, Senior Manager

As summer winds down, many organizations with a June 30 fiscal year-end begin to prepare for their annual financial statement audit. Below are seven best practices to ensure your organization is prepared for a successful audit. Proper planning and attentive execution go a long way to achieving timely deliverables.

7 Steps to Ensure You're Ready

1. **Ensure Audit Readiness throughout the Year**

Your finance department needs to maintain accurate and detailed books and records throughout the year. This is crucial to providing timely information internally for monthly or quarterly Board packages and to compare the budget to actual results. Performing timely monthly financial closing procedures and completing regular reconciliations of bank accounts and other financial analyses will enhance the possibility of detecting errors prior to your audit start date.

It is also wise to review and verify that established key internal control systems are operating effectively and as designed during the year. A sound internal control structure is paramount to the reporting ability of an organization. If your organization received audit findings and recommendations in the prior year, a best practice would be to implement corrective action plans during the year to avoid a repeat finding.

2. **Understand the Effect of New Accounting Standards Updates (ASUs)**

From time to time, new ASUs are issued by standard-setting organizations and standards can impact the financial reporting for your organization. For example, for fiscal year ended June 30, 2023, ASC 842, Leases, will impact the presentation and reporting of those organizations having leases with terms extending more than one year from the end of the fiscal year. A good starting point in the implementation year of this ASU is to take an inventory of your organization's current lease agreements and review them with your outside auditors to assess the impact of the ASU on your organization's financial statements.

3. **Schedule the Financial Statement Audit**

Schedule your audit within a few weeks after your organization has closed the fiscal year-end books and records. This will give your staff flexibility to then go through the requests from the outside audit team so selections can be made ahead of the agreed-upon start date. Make sure that everyone, including your Audit Committee (or Board), agrees on the audit start date and the expected date of audit deliverables.

4. **Assemble Year-End Documentation**

To ease the flow of requested information during your audit, gather all important financial records and supporting documents related to the fiscal year. Doing this in advance will help decrease the

workload for both you and your staff during the audit process.

5. Complete the Trial Balance

Prior to providing the trial balance to your auditors, review it to verify that it incorporates all year-end transactions and adjustments. A complete and accurate trial balance will allow your auditors to accelerate both their planning phase and transaction selection procedures. If you anticipate additional adjustments because there are areas where information is still needed from vendors and/or funders, it is best to alert the audit team that certain accounts on the trial balance may be subject to change.

6. Leverage Technology

Where possible, be prepared to utilize secure electronic file-sharing technology which has essentially replaced the standard audit request letter. Automation of the request list and documentation of the workflow process have streamlined the audit process. These new system practices facilitate interactions between the organization and the engagement team and are a great way to keep audit-related information organized.

7. Explore Artificial Intelligence (AI)

With extensive automation solutions now available and more accessible, AI and other cutting-edge technology may not be as farfetched as you think. More and more opportunities are now available for organizations to take advantage of increased efficiency and automation through AI. There is potential for tremendous time savings when utilizing AI to automate manual processes within an organization that historically required human interaction. Employees can also be managed more effectively and directed toward more useful tasks. Now is a good time to evaluate how your organization can improve key business processes using AI. Often, just getting started is the biggest hurdle to overcome.

Key Takeaway

Spending time preparing prior to the audit commencing will benefit all parties involved. Communicating with your auditors throughout the year as issues arise is also important. Oftentimes, issues can be resolved before the auditors begin their year-end audit procedures.

Contact Us

If your not-for-profit organization needs assistance with any accounting, auditing, tax or business consulting services, please contact the partner in charge of your account or:

Thomas Kelly, CPA
Senior Manager
Not-for-Profit Services
tkelly@pkfod.com | 646.449.6320

Andrew M. Musci, CPA
Senior Manager
Not-for-Profit Services
amusci@pkfod.com | 914.421.5649

Mark J. Piszko, CPA, CGMA
Partner-in-Charge
Not-for-Profit Services
mpiszko@pkfod.com | 646.449.6316

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