

ASK THE EXPERT

Prepare for your annual audit year round to forestall issues

Reconciling balance sheets monthly can help turn frightening prospect into smooth process; document procedures in case of staff turnover

By William Ehart

“Audit” is a scary word, but with proper preparation, the process won’t be frightening.

In “Why You Shouldn’t Fear Your Audit,” a recent article on his firm’s website, Marcum Senior Manager of Managed Services and Consulting Joseph Ritchie advised nonprofit clients to establish an ongoing process that will help at year end. Marcum is a large accounting and advisory firm.

“Preparing for an audit takes time and shouldn’t be rushed,” he wrote. “Audit preparation should take place all year long.”

CEO Update asked Ritchie several audit-related questions. Excerpts from the interview, edited for space and clarity:

CEO Update: What is the value of an annual audit?

Joseph Ritchie: It’s best practice, because the audit increases the value and credibility of the financial statements produced by management. (It) promotes accountability for the for management of the nonprofit. (People) can have a lot of confidence in the financial data, because the statements are being reviewed by a third party.

How should associations prepare for audits?

They should be reconciling their balance sheet accounts monthly. They should be documenting variances, notes, anything that’s abnormal or extraordinary that would happen within the month. Associations should be creating work papers that can easily be read by even a non-accountant. One of the things that’s required for the audit is to provide the work papers that go into the financial statement preparation. If they’re prepared monthly, they should be audit-ready, and you can just turn them over to your auditors.



Ritchie

(If they’re not audit-ready), that could cause internal control issues, a significant deficiency or material weakness in the audited financial statements. Then your auditor could not issue you a clean opinion or an unmodified opinion ... thus resulting in a management letter that would get issued to the board saying that the financial statements that were given to (the auditors) at the beginning of the audit are

not the financial statements you’re seeing in this audit, because we had to make a number of adjustments.

What are some other common problems you find when you take on a new client?

We’ve often been brought into clients where they’re behind on their audit or they need help cleaning things up to get ready for their audits. I think the primary (issue) that we see is turnover. Say a nonprofit has two to four finance staff—an accountant, a senior accounting controller, a VP of finance or a CFO. If they have turnover, that’s a big loss for the organization just in historical knowledge and the timetable around preparing for their audit. We often get involved with clients that have had turnover or things are just not being done in a timely manner.

Is cross-training important for the whole finance team?

It’s very important. But in my opinion, even more important is that there’s adequate standard operating procedures (SOPs) in place that detail the steps needed for each process that happens

monthly. Let’s just say that you have a staff accountant in charge of accounts payable and suddenly that staff accountant quits, and you don’t have anybody to replace them.

But (with an SOP), you have a very clean document with screenshots, with explanations of exactly what to do. So, when you do hire somebody, yes, you do need to train them, but they have that document, they have something that they can go back to in order to understand the flow and the processes. I often see that being a mistake of clients, that they’re so reliant on one person (who) knows everything.

What are some other key factors?

It’s important to have adequate technology, ensuring that you have the right accounting system in place. A lot of times we’ll see clients are not physically cutting checks and signing checks anymore. They’re using an automated system, like a Bill.com. The advantage there is that once the approvals are done, and the bills are paid through a system, we can give the auditors read-only access to that system. So, we’re not having to spend a lot of time pulling all this support, like, “Hey, I’d like to see this check that was cashed on Sept. 30.”

Are audits an important part of preventing or uncovering things like fraud? What’s the best way to avoid abuses?

That’s right. (And on an ongoing basis), we want to make sure that a client has adequate internal controls.

For example, if I’m the one entering the bill, if I’m the one receiving an invoice that needs to be paid, I should be able to enter that, but I should not be able to approve it, and I should not be able to pay it.

But then the person who approves it should not be able to enter it or pay it. There should be rules in place that everybody has a role. There should be a segregation of duties so there are adequate levels of control to avoid (people tapping organizational funds for personal use). And then, who has access to the bank? Who has check-signing authority? That’s important to have in your accounting manual as well. ■



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SENIOR MANAGER, MARCUM