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Preparing for the Auditor's Field Work

Staff's Role

The nonprofit's staff has distinct responsibilities to not only prepare the organization for the audit, but also to cooperate with the auditors when they are conducting the audit, support the audit committee's work, and respond to the auditor's requests for further information during the entire process, whether the examination is an independent audit or a review or a compilation.

The auditors need staff members to help them locate and verify information and documentation. Consequently, while the auditors are on site, it's a busy time, and at least a few staff members are likely to be distracted by the need to provide the auditors with information and documentation of financial transactions. Therefore, it's helpful for planning purposes to know in advance approximately when the auditors' field work will occur and how long it will last. The time needed for the field work varies but could last several days. Generally you won't want to schedule other important events in your office on those days. Make sure that all staff members are aware when the auditors will be conducting the audit, and that it is a top priority for them to assist in producing any documentation requested by the auditors.

Preparing for the Auditor's Field Work

Getting ready for the audit field work: A staff member generally is appointed to coordinate logistics for the auditor's onsite visit if one is planned. Some auditors conduct their field work completely via the internet and phone conferences, but that generally occurs when the auditors are very familiar with the nonprofit and its operations. Since one of the purposes of field work is the "testing" aspect, it makes sense for the majority of audits to be conducted on site where the nonprofit's financial operations are centralized. Some auditing teams comprise 3-5 people (or more). Where will they sit? Will they need internet access? All these practical questions should be addressed before the auditors knock on the door to perform their fieldwork. **Tip:** it's helpful to know approximately when the auditors will be on site conducting their "fieldwork" and how long it will take.

- The auditors may request to interview one or more staff members and/or board members to ask them questions about their knowledge of financial policies and transactions. Staff and board members should be encouraged to answer truthfully (even if the answer is, "I don't know") and to cooperate with the auditors.

What will the auditor review? Since it is a major responsibility of the auditors to verify the nonprofit's "Statement of Financial Position," the auditor will need to have copies of reconciliations and schedules supporting all asset, liability, and equity accounts. Additionally, the auditors will need to have access to all paid bills, deposit records, bank statements, and records of contributions/grants received during the year.

The following are the most common items reviewed by auditors:

- Year-end reconciliation and bank statements
 - Bank reconciliation statement should have a complete list of outstanding checks with check number, date, and amount
 - Also, list any details for deposits that have been made but have not yet appeared on bank statements
- Year-end investment summary showing year-to-date transactions and balance of investments at fair market value (FMV) and original cost (FMV at date of

donation) in hand at the end of the fiscal year

- Documentation of marketable securities that were donated during the year and of their sale, if applicable
- Written pledges made by donors for a charitable contribution and documentation of any verbal pledges
- List of grant funds received already and those that are not yet received but expected, with documentation. The original letters from funders communicating that a grant has been awarded are usually enough to share with a funder.
- List of any physical items that the nonprofit has in inventory that it is intending to sell
- Fixed asset and depreciation schedule (include copies of any documentation relating to donated fixed assets)
- Reconciliations to support any other asset accounts
- Listing of year-end accounts payable and accrued expenses such as payroll tax payable and documentation of the liability created by unused but accrued paid leave, including paid leave that carries over to the next fiscal year
- If applicable, a schedule of notes payable to the nonprofit, changes to the schedule year-to-year, and copies of the notes themselves
- Reconciliation of deferred grant revenue and refundable advances from funders
- Reconciliation of net assets classifications

Examples of additional documentation that auditors typically will request to review:

- General ledger for the fiscal year
- Year-end [trial balance](#) and financial statements broken down by net asset class
- All grant awards and related correspondence (including proposals, commitment letters, acknowledgement letters, and reports) and contracts that resulted in revenue. Ensure that this correspondence indicates any time or purpose restrictions on the funds, or if they are unrestricted.
- Schedule of Federal Awards showing federal awarding agency, [pass-through agency](#), grant number, program name, Catalogue of Federal Domestic Assistance (CFDA) number, award amount, current year expenses, and prior year expenses
- Minutes of meetings of the board of directors and committees
- Personnel manual
- Accounting manual or financial management policies

- Whistleblower protection policy
- All contracts, including lease agreements
- Payroll tax reports, W-2s and 1099s issued during the fiscal year and timekeeping records, if kept
- Documentation of charitable contributions: grants, gifts, and corporate sponsorships
- Documentation of income earned from taxable activities (unrelated business income tax)

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Disclaimer: *The resources in this Guide are offered for informational purposes only. The National Council of Nonprofits recommends consulting a lawyer or accountant who has expertise in accounting rules for charitable nonprofits so that you can be confident that your charitable nonprofit is in compliance with all legal requirements. And, when your organization is looking for trusted information about financial management practices, good governance, and accountability, don't overlook the resources that membership in your [state association of nonprofits](#) can provide.*