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## Nonprofit Audit Guide | Glossary

**Accounting function:** the accounting function includes, for example, such items as timely and correctly recording and reporting transactions, internal controls, financial fraud prevention, and other select risk management areas.

**Audit:** an audit is the examination of the financial statements by an accounting professional to determine whether they conform to accounting standards. An "independent audit" is performed by a public accounting firm or an individual who is a certified public accountant ("CPA") who is engaged to provide an independent opinion to the management whether or not the nonprofit's financial statements/records comply with accounting standards known as "GAAP" (generally accepted accounting principles). In an independent audit the person conducting the audit is not a board member or an employee of the organization being audited, therefore the review is thought to be more objective than if the reviewer were under the control of, or controlled the nonprofit.

**Auditor:** a licensed accountant or a federal, state, or local government auditor charged with performing audits, who meets the [Government Auditing Standards](#) for individuals/entities conducting audits.

**Audit Committee:** a committee of the board of directors tasked with the authority to oversee the independent audit process. For smaller organizations/boards, a separate committee may be impractical. In that case, the role that would be played

by an audit committee may be delegated to another standing committee of the board, such as the executive committee, or the full board itself should undertake oversight for the audit process.

**Compilation:** The result of work by a CPA to review and present the nonprofit's financial information in the format that complies with accounting standards. A compilation does not result in any assurance that the financial statements are free of material misstatements. The compilation must comply with Statements on Standards for Accounting and Review Services (SSARSs).

**Federal financial assistance:** assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance. It does not include amounts received as reimbursement for services rendered.

**Federal funds:** federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from the federal awarding agencies or indirectly from pass-through entities, such as a state or local government agency.

**Fiscal year:** an accounting period of 12 successive calendar months.

**Generally Accepted Government Auditing Standards (GAGAS):** standards issued by the Comptroller General of the United States that are applicable to financial audits.

**Generally Accepted Accounting Principles (GAAP):** a set of common ground rules used to prepare financial statements and includes the rules and procedures that define accepted practice in the preparation of financial statements.

**Independent auditor:** licensed public accountant or external state or local government auditor who meets the independence standards included in generally accepted government auditing standards. See "auditor" above.

**Independent auditor's report:** the report prepared by an external certified public accountant that describes the fairness of the financial statements, and provides an opinion as to whether they conform to generally accepted accounting principles. The report must also address other issues such as whether there are any material

weaknesses in the nonprofit's financial statements.

**Independent review:** a limited examination by an independent auditor of the financial information prepared by the organization. A review offers limited assurances that the nonprofit's true financial picture does not significantly vary from the information presented.

**Internal control:** a process, sometimes expressed in a written policy, that is implemented by a nonprofit's management and other personnel, that is designed to provide reasonable assurances as to the: a) effectiveness and efficiency of operations; b) reliability of financial reporting; c) compliance with applicable laws and regulations. At the specific transaction level, internal control refers to the actions that are supposed to be taken to achieve a specific objective (e.g., ensure that contributions to the nonprofit are safely deposited in the nonprofit's bank account and not embezzled; and that all restrictions on gifts are honored).**Non-federal entity:** a state, local government, or nonprofit organization. Sometimes also referred to as a "non-governmental entity."

**Ombudsperson:** person or body (such as the audit committee) specifically charged with the responsibility to address complaints about financial mismanagement; usually identified in the nonprofit's whistleblower policy.

**Pass-through entity:** a non-federal entity that provides a federal award (money) to a sub-recipient to carry out a federal program (e.g., a state agency that provides a grant to a nonprofit or enters into a contract with a nonprofit to deliver services).

**Project-specific audit:** an audit of the nonprofit's funding from an individual federal program (rather than a single audit of an entity's financial statements reflecting funding from all federal programs).

**Single audit:** A special audit that includes both the entity's financial statements and an audit specifically of the federal awards received by the nonprofit; single audits are only applicable when a nonprofit expends \$750,000 or more of federal funds in a single fiscal year.

**Statements on Standards for Accounting and Review Services (SSARS):** a set of common guidelines used to prepare compiled financial statements, which require the CPA to have an understanding of the organization's industry and the client. SSARS also determine whether the financial statements appear appropriate in

form and free from obvious material errors.

**Sub-recipient:** a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A sub-recipient may also be a recipient of other federal awards directly from a federal awarding agency.

**Trial balance:** The trial balance is a report run at the end of an accounting period, listing the ending balance in each account. The report is used to ensure that the total debits equal the total credits (i.e., no unbalanced journal entries in the accounting system that would make it impossible to generate accurate financial statements).

**Unified Chart of Accounts:** a financial organizational tool that provides a complete listing of every income and expense category in an organization's own accounting system. Usually the goal is to match up a nonprofit's categories with the categories referred to in the IRS Form 990, and/or government grant/contract requirements. See [Elegant Chart of Accounts: Simple can be sophisticated](#) (CLA).

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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.*