Most people hear the word “audit” and instantly feel the hairs on the back of their neck stand at attention, but many do not truly know what a financial audit is really all about. Unlike an IRS audit, a financial audit should not be antagonistic. A financial statement audit is the authentication of an organization’s accounting books and records by a Certified Public Accountant (CPA). An auditor’s task is to express an opinion as to whether or not the financial statements present fairly, in all material respects, the financial position of the organization in conformity with accounting principles generally accepted in the US. A common misconception is that the purpose of an audit is to “clean up” the organization’s books; however, that task needs to be completed BEFORE the audit commences so that the auditors can adequately test ending balances and form an opinion.

A financial audit is typically conducted in two phases; first, the organization’s internal controls are tested. The results of those tests determine the amount of test work that will need to be completed to verify the financial balances are accurate. This is considered “risk based auditing”. In essence, having a strong set of internal controls reduces the risk that fraudulent or inaccurate transactions may occur, thus the auditor can place some reliance on those controls and reduce the amount of financial testing that must be conducted.

The second phase of the audit process involves testing the financial balances presented. Auditors review supporting documentation, perform analytical procedures and confirm specific balances to gain assurance that the amounts being reported are appropriate. As discrepancies are identified, the auditors will discuss these with the organization’s accounting team and potentially propose adjusting journal entries to correct said variances.

Another common misconception is that auditors are looking to find fraudulent activity or expose inappropriate accounting transactions. That simply is not the case. Auditors have a responsibility to adhere to auditing standards and uphold the integrity of the accounting profession. Stating in an audit report that a set of financial statements is accurate and complete without having truly performed adequate test work can expose an auditor to serious fines, penalties and license revocation.

So how can an organization best prepare for a financial statement audit? The most effective strategy is to contemporaneously maintain adequate documentation for all accounting transactions during the year. Upon receipt of the auditor’s request list, the organization should begin gathering the required documents either electronically or by making copies of originals.

In many exempt organizations, the top financial individual is often already overcommitted. To reduce strain on the organization, audit preparation services can be outsourced. In doing so, a quicker, more efficient audit would most likely follow, resulting in reduced audit fees. As part of this audit preparation, adjusting journal entries can be identified before the audit so as to save time on the back end of test work and allow the auditors to receive a clean set of books and records.
Having this extra set of eyes can help the organization in more ways than audit preparation as efficiencies are often identified as part of this process. Additionally, if audit preparation services are outsourced to the firm that also prepares the organization’s Form 990, this will very likely reduce the preparation time for the Form 990 and allow for valuable suggestions as to how to set up the organization’s financial statements so that they “speak” directly to the organization’s Form 990.

About the Author

Stacey Bergman, CPA

Stacey Bergman, CPA currently heads up the Audit and Accounting area of YH Advisors, Inc. Her comprehensive professional experience includes over five years in public accounting and two years in the private sector, working with exempt organizations in the preparation of their internal financials, helping get exempt organizations get ready for financial audits and reviews, the conducting of audits, reviews and compilations for exempt organizations of varying size and the preparation of the information and income tax returns for exempt organizations.

Stacey and her team currently serve as an outsourced Controller and accounting department for multiple exempt organizations, assisting with the creation, documentation and implementation of internal controls and accounting procedures as well as special projects based on the specific needs of the organization.

Please do not hesitate to contact Stacey Bergman at (310) 982-2805 or sbergman@yhadvisors.com if you have any questions regarding the foregoing or if you need any additional information whatsoever regarding the exempt organization accounting and auditing services which YH Advisors provides.

About the Firm

YH Advisors, Inc.

YH Advisors is one of the truly distinctive CPA firms in the United States in that our focus is addressing the tax, legal and accounting needs of all different types of exempt organizations. Founded by Brian Yacker and Lauren Haverlock, our exclusive focus on exempt organizations but our services significantly extend beyond that of the traditional CPA firm to being a true partner/trusted advisor with all of our exempt organization clients. Additionally, a very important core foundational principle of YH Advisors is to conduct outreach and educational activities in the exempt organization sector to encourage the self-sufficiency and sustainability of exempt organizations.

Collectively, we possess over 35 years of experience in providing tax compliance services, tax/legal consulting services and accounting and audit services to all different types and sizes of exempt organizations. We are equally adept at providing significant value-added services to large hospital systems as we are to start-up public charities and private foundations. We collectively sit on a good number of Boards of exempt organizations and we are active in the furthering and promoting of pro bono initiatives in the exempt organization sector.

For more information about our tax, accounting/audit, and educational outreach services, please do not hesitate to contact us at info@yhadvisors.com.