AUDIT VS REVIEW

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ABOUT RUBINO & COMPANY

Rubino & Company offers comprehensive accounting, tax, and financial services primarily to nonprofit organizations and government contractors across Washington, DC metropolitan area.

For more information, please visit https://rubino.com/

DO YOU NEED AN AUDIT?

- Audit may be required by law, by a funder/donor, by financial institution, or may not be required but is a best practice
- Maryland Solicitations Act, Business Regulation Article Title 6 requires
  - an audit by an independent certified public accountant, if the gross income from charitable contributions in the most recently completed fiscal year is at least $750,000; or
  - a review by an independent certified public accountant if the gross income from charitable contributions in the most recently completed fiscal year is at least $300,000 but less than $750,000;

REVIEW OF FINANCIAL STATEMENTS

- Intended to provide users with a **basic level** of assurance on the accuracy of financial statements
- The CPA performs **analytical procedures, inquiries and other procedures** to obtain "**limited assurance**" on the financial statements
- A review is substantially **narrower in scope than an audit**.
- A review **does not contemplate obtaining an understanding of your organization's internal control; assessing fraud risk; testing accounting records** through inspection, observation, outside confirmation or the examination of source documents or other procedures ordinarily performed in an audit.
- The CPA will issue a formal report that includes a conclusion as to whether, based on the review, **the CPA is not aware of any material modifications that should be made to the financial statements** in order for them to be in accordance with the applicable financial reporting framework
- Costs less than audit

AUDIT

- The CPA obtains **reasonable (defined as high, but not absolute) assurance** about whether the financial statements are free of **material misstatement**.
- The CPA express an opinion on whether the financial statements are **presented fairly, in all material respects**, in accordance with an applicable financial reporting framework
- The CPA is required to obtain an **understanding of the organization's internal control and assess fraud risk**
- The CPA is required to perform **verification and substantiation procedures**

ROLE OF THE BOARD

- The board is responsible for **oversight of the nonprofit's accounting function** and **the performance of the independent auditors**, unless delegated to an audit committee. However, having an audit committee is not mandatory
- The oversight process often **involves hiring an independent auditor**, ensuring that recommendations made by the auditor are implemented, and responsible parties are in place to address any financial mismanagement

ESTABLISHING A SEPARATE COMMITTEE

- An audit/finance committee typically consists of 3 to 5 positions
- The majority of the members are board members
- Not all have to be board members
- The committee should be independent to ensure objectivity of the audit process
- The committee should not be involved in the nonprofit's accounting function
- The committee should have the skill, knowledge and experience to govern in a financial capacity

SELECTING AN AUDITOR

- Look for a CPA or auditing firm that understands accounting for charitable nonprofits and has expressed interest in your mission.
- Request a proposal letter from qualified CPA firms.
- Evaluate a proposal for audit services considering the following:
  - The responsiveness to the request for the proposal
  - Relevant experience, availability of staff with professional qualifications and technical abilities
  - The results of external quality control reviews (peer reviews)
  - References from other nonprofit clients, and
  - Of course, costs.

MOST COMMON ITEMS REVIEWED BY AUDITORS

- Corporate and organizational documents
- Policies related to financial management and controls
- Board and committee meeting minutes
- Grant proposals, commitment letters and contracts with funding sources
- Financial reports submitted to funders
- Contracts with vendors
- Lease agreements
- Insurance policies
- Employee handbook and pension plan documents

MOST COMMON ITEMS REVIEWED BY AUDITORS (CONTINUED)

- Trial balance
- General ledger detail
- Reconciliation of bank accounts
- Account receivable schedule
- Account payable schedule
- Fixed asset schedules
- Schedule of prepaid expenses
- Investment activities
- Expense accounts analyses

MOST COMMON ITEMS REVIEWED BY AUDITORS (CONTINUED)

- Bank statements and canceled checks
- Payroll records
- Invoices and paid bills (receipts)
- Receipts for credit card activities

COMMON AUDIT MISCONCEPTIONS

- An audit looks just at the financial numbers
- An audit is conducted to assess if there is fraud at an organization
- The financial statements are the responsibility of the auditors, not management

COMMON ISSUES ENCOUNTERED BY AUDITORS DURING AN AUDIT

- Not being ready for the audit at the predetermined time
- Not having personnel with adequate skill, knowledge, and experience that understand and accept responsibilities for financial reporting
- Missing and/or inadequate documentation
- Lack of proper design and/or implementation of internal control procedures
- Not taking timely corrective actions on the prior year findings

INTERNAL CONTROL FOR SMALL ORGANIZATIONS

- Disbursements (check, credit cards, petty cash, ACH, wire, etc.).
- Cash receipts (check, ACH, credit card, cash, etc.)
- Payroll

SUMMARY

- Understand your financial results to determine if an audit is required
- Determine as part of governance if an audit and/or finance committee is needed
- Evaluate whether the right people are in place to provide sound financial oversight
  - Operationally
  - Strategically at the board level
- Select auditors by first sending a request for proposal developed internally
- Establish and implement adequate internal control procedures
- Be prepared for the audit and establish clear timelines
- Implement recommendations made by auditors

QUESTIONS?

- Email dnegari@rubino.com or jji@rubino.com