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The Audit Dance: A Well-Choreographed Routine

Think of your not-for-profit organization and its external auditor as dance partners performing a well-choreographed routine. To execute the dance properly, each dancer must complete specific moves and coordinate timing with his or her partner. Likewise, your organization and its audit firm each have particular duties in the audit process but share the same end goal: a set of financial statements that fairly present your financial condition and operating results.

Defining Responsibilities

Your auditor is responsible for expressing an opinion on your financial statements. The opinion is based on planning and performing an audit in line with required standards to obtain *reasonable assurance* that your financial statements are free of material misstatement – whether from error or fraud.

Your not-for-profit organization, on the other hand, is responsible for preparing the financial statements and for related tasks, such as developing estimates (an allowance for bad debts, for example) and adopting accounting policies. It's also your job to establish, maintain and monitor effective internal controls over financial statement reporting and to prevent and detect fraud, as outlined in the American Institute of Certified Public Accountants' standards.

In designing the audit plan, the auditor considers the internal controls you have in place to guard against risks. But, in the audit opinion, he or she provides no assurance on the effectiveness of those controls.

The auditor may advise on appropriate accounting principles and their application, and may even assist in the preparation of the financial statements at your request outside of the audit as a matter of convenience, as long as he or she has determined that your not-for-profit has the ability to understand and approve those statements.

The responsibility for the financial statements remains with your organization. You also are responsible for adjusting the financial statements to correct material misstatements.

Your auditor must maintain independence, in both fact and appearance. Although he or she can provide suggestions to help your not-for-profit



Using your Board as a Resource

During the audit engagement, your board of directors -- the audit committee in particular -- can be a valuable resource for your not-for-profit organization.

The board's significant fiduciary responsibilities dovetail with many of the audit-related duties. And a well-represented board may have members with accounting experience who can assist.

In particular, qualified board members may be able to confer with the independent auditor during the

develop policies, your auditor can't assist in selecting and implementing those policies.

planning process, prepare the financial statements and reconcile accounts to limit the number of adjustments needed during the audit.

The auditor also can't make the adjusting journal entries that might be required to close your books. Your not-for-profit has the responsibility to maintain, adjust and close the financial records before the audit.

Well Worth It

The time your not-for-profit spends preparing for the audit can be significant, and coordinating the roles of your auditor and your organization may be a bit ticklish. But the end results -- a fair assessment of your financial health, viable options to address any exposed vulnerabilities and transparency for your public -- make it well worth the effort.

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