

What Should a **Non-Profit Board** Ask of Their Auditor?

It's important to go into the audit process with as much information as possible, particularly about the auditor and the methods they use. **Here are some questions to ask before the audit begins and after it's completed.**

Questions to Ask During the Planning Stages of the Audit

Some questions to ask as you begin the planning stages of the audit include:

1. HOW ARE YOU GOING TO HANDLE THE PRIOR-YEAR AUDITOR?

If this is the first time your company is working with a particular auditor, ask them how they will approach the auditor you worked with previously. What will the auditor do to smooth the transition?

2. HOW DOES YOUR AUDIT PLAN FOR THIS YEAR DIFFER FROM LAST YEAR?

If you're working with the same auditor again, ask them if they are taking a different approach or what they might be doing differently this year.

3. WHAT ARE THE MAJOR ACCOUNTING CHANGES THAT COULD AFFECT THE AUDIT THIS YEAR?

Regulators make adjustments from year to year. Ask the auditor to describe any changes and what those changes mean for your company's audit.

4. WHAT IS THE SCOPE OF YOUR AUDIT?

An audit's scope is the range of the records that the auditor examines. For example, the audit could cover an entire fiscal year or a quarter. In addition to asking about the scope of the audit, ask the auditor how the scope will affect their ability to discover fraud, errors, problems with internal controls or illegal acts.

5. IN WHAT WAYS AND WHERE DO YOU THINK OUR STAFF COULD HELP REDUCE YOUR TIME?

Ask the auditor if there is anything you or your team can do to streamline the audit process for them or make it go more smoothly. Reducing the time it takes to complete the audit can mean a lower fee. It also means you'll get the information you need more quickly.

6. DOES YOUR CONTROL ASSESSMENT OF OUR COMPANY ENABLE YOU TO REDUCE SUBSTANTIVE TESTING?

An auditor will likely review multiple transactions during the audit and will ask you to produce records for various transactions. Ask the auditor what type of control assessment they perform and the effect it has on their process.

7. HOW DO YOU DETERMINE MATERIALITY AND WHAT IS IT?

Materiality is the effect a misstatement or omission has on the use of a company's financial statements. Ask the auditor how they determine whether an issue is material or immaterial and what it means for your audit results.

8. DO YOU ANTICIPATE ANY INDEPENDENCE ISSUES?

The person performing an audit for a non-profit needs to be independent, meaning they can't be an organization employee. An auditor might have independence issues if they've performed other work for the organization over the past year or if a relative has a connection to the organization. For example, if the auditor's child attends a non-profit university or if their spouse works for the organization, there would be independence issues.

9. HOW DO YOU DETERMINE IF YOU ARE INDEPENDENT?

Along with asking the auditor if they anticipate any independence issues, ask them what methods they use to determine their independence. For example, you can find out if they believe volunteering for the organization in another capacity affects their independence.

Questions to Ask During the Finalization Stage

While it's a good idea to keep in touch with your auditor throughout the process, you can also generally expect a meeting at the end of the audit to discuss what happened. During that meeting, consider asking the following.

1. DID YOU RUN INTO ANY CIRCUMSTANCES THAT CAUSED YOU TO CHANGE YOUR AUDIT PLAN IN ANY AUDIT AREA?

The unexpected can happen during an audit. Find out if the auditor experienced any difficulties or if they had to change their approach at any point. Ask for more details about what they had to change or why they had to make those changes.

2. DID MANAGEMENT GIVE YOU EVERYTHING YOU REQUESTED?

Ideally, the organization's management team will provide the auditor with the statements and other information they need to complete the audit. If that wasn't the case, the board of governors should be aware of future audits.

3. WERE THERE ANY AREAS IN THE CONTROL ENVIRONMENT THAT CAUSED SIGNIFICANT ALARM?

It's the auditor's responsibility to review the organization's control environment and come to their own conclusions about it. Ask the auditor if they discovered any parts of the control environment that were particularly concerning.

4. WERE THERE ANY IDENTIFIED FRAUD, ERRORS OR ILLEGAL ACTS?

It's also critical that you ask the auditor if they found any evidence of errors, fraud or illegality during their audits. If they found evidence of fraud, what was it?

5. WERE THERE ANY SIGNIFICANT MATERIAL WEAKNESSES OR DEFICIENCIES NOTED IN THE CONTROL SYSTEM?

Control deficiencies or material weaknesses are issues in an organization's financial reporting that can make it more likely for a misstatement to occur. Find out if the auditor detected any and, if so, what they were and what can be done about them.

6. WHAT TYPE OF OPINION ARE YOU GIVING AND WHY?

You must get the auditor's overall view of your organization's financial statements. Even if their opinion lines up with that of the board, it's important to understand why they have come to that conclusion. What details lead them to make their final decision or develop their final opinion?

7. HOW WERE ANY DISAGREEMENTS BETWEEN YOU AND MANAGEMENT RESOLVED?

It's not a given that management and the auditor will disagree on certain aspects of the company's financial statement or that the auditor will differ from management in their assessment. But it is possible. If the auditor disagreed with management in any way, find out how they disagreed and what was done to solve the issue.

8. WERE ANY ADJUSTMENTS THAT YOU PROPOSED NOT MADE?

It's possible that the management team didn't acknowledge or implement recommendations an auditor made. It's a good idea for the board members to learn about those recommendations or adjustments and to decide how to move forward with that information.

9. ARE THERE ANY MATTERS REMAINING?

It could also be that management didn't fully address several issues the auditor brought to their attention. Ask about any remaining matters and what the board can do to address them.

10. WERE THERE ANY ACCOUNTING PRINCIPLES THAT CHANGED?

If a non-profit organization decides to adopt a change in accounting principle, it needs to apply the change to all previous reporting periods, as well, unless doing so proves to be impractical. The auditor should note any changes made, so it's important to ask them about those changes. It's also a good idea to reflect on how changes to accounting principles affect financial statements.

11. ARE OUR POLICIES IN LINE WITH BEST PRACTICES?

Accounting best practices are critical for any company and particularly essential for non-profits, which need to prove to donors and foundations that they are trustworthy and reliable. An auditor can give you insight into whether or not you're using accounting best practices. If not, they might be able to help you determine what changes to make to adopt those best practices.

12. WERE THERE ANY UNUSUAL OR SIGNIFICANT ITEMS THAT WE NEED TO BE MADE MORE AWARE OF?

One of the benefits of having an independent party review a non-profit organization's financial statements is that they are likely to note issues or items board members or the management team are likely to overlook. Ask the auditor about any concerning items and why they think those items might be an issue. You can also find out if they have recommendations for ways to handle any unusual items.

13. HOW IS YOUR PERCEPTION OF MANAGEMENT'S ATTITUDES TOWARDS INTERNAL CONTROLS?

Working with an auditor gives you a chance to get someone's unbiased opinion about the non-profit and the management team. Ask the auditor what they think of your management team's attitudes, particularly about the internal controls your organization uses.

14. WHAT PERCENTAGE IS OUR FEE IN RELATION TO THE TOTAL FEES EARNED BY YOUR FIRM?

Several factors influence how much a non-profit organization's audit cost. It can be worth asking the auditor how much your company's fee contributes to their total fees. Are they charging you so much that your audit fee makes up a significant portion of their total fees? Or is it a small percentage of the total revenue earned by the firm? Finding out how your company's fee compares to the firm's total fees will give you an idea of whether or not the auditor depends on your company's audits or is spending more time than average working for you.

15. WHAT COULD WE DO TO REDUCE YOUR TIME AND THE AUDIT FEE NEXT YEAR?

A non-profit's size, financial complexity and accounting practices contribute to the time it takes an auditor to perform an independent audit. The length of the audit typically directly connects to the size of the fee. If your company made significant changes during the year, such as adopting new account principles, you could expect a higher fee than in a year with few, if any, changes. It can be worthwhile to ask the auditor what you can do in the future to reduce the complexity of the audit and the length of time it takes, lowering your fee.

16. HOW DID THE AUDIT FEE COMPARE TO THE ESTIMATED TOTAL?

The auditor most likely gave you a quote for the fee before the audit began. Now that it's over and the auditor has billed the organization for the services, compare the estimated fees to the actual cost. If there's a significant difference, ask the auditor about the change. If the actual fee is much lower than the estimated amount, it's still a good idea to learn more about what influenced the change. Why did the auditor spend less time performing the audit they expected?

17. IS THERE ANYTHING ELSE YOU WOULD LIKE TO DISCUSS WITH US?

Give the auditor a chance to bring up any issues that you might have missed or that they think are worth discussing. It might be the case that they have ideas you haven't thought about that can improve your non-profit's financial statements or help you improve the accounting process moving forward.

