



Are You Fulfilling Your Financial Trust?

There are three key financial roles in every nonprofit. Do you know where you fit?

BY ROSEMARIE RUIZ

The ultimate responsibility for supervising a nonprofit's finances rests with the board. But board members can't fulfill this trust without understanding the complementary roles of auditors and top management. Together these three—board, auditors, and the top exec—forge the nonprofit's financial future. Here's a rundown of their vital roles:

Auditor's Role

Every nonprofit organization should hire an auditor to perform a financial audit each year. The auditor's role is to evaluate the correlation between estab-

lished criteria and quantifiable information. The quantifiable information is usually in the form of the organization's financial statements, and the standard criteria are "generally accepted accounting principles" (GAAP), established by accounting professionals. Auditors aren't responsible for the organization's financial statements but are hired to express an opinion on the fair presentation of those statements.

For their opinion to be reliable, it is imperative that auditors be without bias toward the organization. Thus, auditors must be independent. The fact that the organization hires the auditors doesn't preclude their independence in conducting the audit.

The auditor usually prepares a contract, known as the "engagement letter," outlining:

- the fee
- payment method
- any schedules the organization must prepare
- responsibilities of all parties
- anticipated date of the audit's completion.

The auditor signs the engagement letter and passes it to the executive director for a signature.

Management's Role

The executive director is responsible for maintaining and reporting the organization's financial information. To help in this responsibility, the accounting department must:

- record and summarize financial transactions
- prepare financial statements with the disclosures necessary to comply with generally accepted accounting principles
- comply with contract specifications in reporting government funds
- follow donors' conditions in reporting restricted funds.

To insure that the accounting department fulfills these duties, management is responsible for instituting and maintaining an adequate internal control system.

The executive should cooperate fully in the annual audit. It is important for the exec to read the auditor's engagement letter carefully before signing. To avoid later misunderstandings or lawsuits, management must clearly understand what services the organization will be receiving.

Board's Role

Board members are responsible for hiring the executive director and moni-

The ultimate responsibility of a nonprofit's financial management rests with the board.



Three Crucial Financial Partners

The Auditors' Role Is to:

- Represent an objective outside opinion, without bias for or against the organization.
- Before beginning the audit, submit a contract detailing services to be performed and responsibilities of all parties. Sign the contract, and have a representative of the organization sign it.
- Assess how well the organization's financial records conform to generally accepted accounting principles.
- After the audit, submit a management letter suggesting improvements in the organization's financial operations.

The Executive Director's Role Is to:

- Oversee the accounting department in preparing financial statements.
- Before signing the auditor's contract, understand exactly what the organization is contracting for. Be certain that the responsibilities of all parties are spelled out and agreed upon.
- Summarize and report the financial information that affects the organization.
- Be sure financial information accurately represents the economic events that occurs.
- Establish and maintain an internal control system.
- Monitor compliance with government contracts.
- Be sure that restricted funds are used for their designated purpose.

The Board's Role Is to:

- Make certain that the organization is audited every year. Approve the hiring of an auditor, or form an audit committee to do so.
- Read the auditor's contract, and be sure everyone's responsibilities are clear.
- Review the audit, and be certain that the auditor's suggestions are carried out (or have the audit committee do so).
- Monitor the executive director to see that the organization's financial information is maintained and reported accurately.
- Check with management to make sure a proper control system has been set up and is working well.
- Be sure management complies with applicable laws and contracts with funding sources. Review financial reports before they're submitted to anyone outside the organization (or have the audit committee do so).
- Accept ultimate responsibility for the organization's financial management.

toring management activities. This monitoring can take several forms. One way to monitor the fiscal area is for the board to review the annual audit. Another way is for the board to form an audit committee to approve the auditor's hiring and review the audit plan.

In the course of the audit, auditors often make recommendations for improving the organization's operations. These suggestions are in the form of a management letter addressed to the audit committee or the board. The board or audit committee is responsible for discussing this letter with management and seeing that the recommendations are carried out.

Another board role is to make sure that management complies with applicable laws and contracts with funding sources. The board or audit committee should review reports prepared by the fiscal area before they are submitted to anyone outside the organization.

It is crucial that board members understand not only their own role but also the auditor's and executive director's functions. For optimum efficiency, it's important to draw fully on the expertise of all three. ■

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Nonprofit World • Volume 17, Number 1 January/February 1999
Published by the Society for Nonprofit Organizations
6314 Odana Road, Suite 1, Madison, WI 53719 • (800) 424-7367