

How to Find the Perfect Auditor

Your audit is more critical than ever to your organization's survival. Don't leave the choice of auditor to chance.

BY ANDY ARMANINO

Whenever nonprofits are involved in scandal or even a perceived scandal, it damages the delicate balance of trust they share with their donors, the community, and other stakeholders. Several recent crises have dealt blows to the credibility of all charitable organizations, calling their accounting practices into question.

In this difficult environment, it's more important than ever for nonprofits to perform a thorough audit once a year.

Auditing is in the midst of a renaissance and a return to solid accounting fundamentals. The scandals affecting national auditing firms and subsequent accounting reform legislation have trained a laser light on auditing. This in turn has fueled renewed interest in the practice of auditing and sparked questions about what value it can deliver to organizations.

Auditors' responsibilities for detecting fraud have also increased. The Auditing Standards Board has urged auditors of nonprofits to exercise greater professional skepticism when performing audits.¹

It is management's responsibility to design and implement controls to prevent and detect fraud.² A new auditing standard (Statement on Auditing Standards 99) contains requirements for auditors that will have profound effects on nonprofits' annual audits. It requires auditors to evaluate nonprofits' programs and controls in assessing the risks of material misstatements due to fraud.

Directors and particularly audit committee members of nonprofit boards also are subject to greater scrutiny. They must be mindful of their responsibility to guide and monitor their auditors to ensure the verity of financial statements and their organization's operations.

Understand Why the Audit Is So Important

For nonprofit organizations, there are many benefits to a well planned and performed audit:

- **A comprehensive annual audit will increase your organization's reputation** with creditors, benefactors, contributors, beneficiaries, the community, and local officials.
- **Board members will gain a deeper understanding** of the organization's financial position.
- **An audit will help you pinpoint problem areas**, particularly in the realm of internal controls, and generate solutions provided by your auditor.

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- **You will increase efficiency in your operations** and learn ways to streamline daily activities.

- **An audit provides valuable information** that will help you make better strategic and policy decisions.

- **When an experienced, licensed third party audits your financial statements**, you gain prestige, knowledge of your own financial position in your market, and ideas about how to stay on top.

Make the Right Choice

In selecting your auditor, there are two key questions to explore:

1. Does the Auditor Have the Right Experience?

To make sure the auditor you choose has the experience you need, answer the following:

Does the auditor understand nonprofits? Does the auditing firm maintain a trained staff of professionals experienced in nonprofit organizations? Is the auditor on top of hot topics, including new standards that impact your accounting for pledges, contribution revenues, restricted net assets, and endowment policies?

What is the overall experience of the auditing firm? Does the firm have decades of stable, continuous service? Or is it a relatively new firm?

Is the auditor responsive? Do you have to penetrate layers of bureaucracy to get to senior partners? Or do you have



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a true relationship with your audit team leaders in which you can pick up the phone and interact with them in a timely manner?

How big is the auditing firm?

Regional firms with perhaps 20 partners and 100 to 125 employees are a good size for most nonprofits. With larger firms, your organization may not be a large enough client, and you're likely to suffer from staffing and service issues, not to mention sticker shock. Anything smaller and there could be deficiencies such as lack of training, partner and employee retention issues, and weakness in specific expertise. Look for a firm that is large enough to provide the services you need but small enough to deliver close, personal attention.

Is there constant turnover, or does the audit team remain stable?

The firm should keep the same professionals year in and year out so that their knowledge of your organization becomes deep and insightful. Check to see what the staff retention is at the audit firm. Is it able to retain top talent? During audit fieldwork, will a manager, firm partner, or senior practitioner be on site supervising the work?

Can the auditor support your organization's other needs? Does the firm have an information-technology team or offer other accounting services? Can the firm advise you on a range of topics such as budgeting, internal controls, and reports required by board members?

Does the auditor participate in a peer review program? Ask whether the firm is reviewed periodically by peer firms. Such peer review is usually accomplished under the auspices of your state board of accountancy. Also, check the

disciplinary records of your state board of accountancy or the SEC.

2. How Does the Auditor Approach the Audit?

The second key question is: What approach does the auditor use? The audit approach makes all the difference, but it shouldn't be a template. The approach should be thorough but tailored to incorporate unique tasks, methods, and procedures that make sense for your organization. Make sure to choose an auditor who doesn't skimp on any of these four essential phases:

Phase 1: Orientation. A good auditor will begin by asking to meet with your accounting staff. This initial orientation is vital for the auditor to develop insight into your organization and the fiscal environment in which you operate.

Phase 2: Planning. During this step, auditors should meet with your staff to gain a more detailed understanding of your operations, identify significant issues, and design an efficient audit process. They should also coordinate procedures, create a timeline for the audit, discuss specific concerns and requirements, and assess your financial data to identify areas that require scrutiny. Then, in collaboration with your staff, they should define audit objectives, concentrating on the identified areas of concern.

Phase 3: Fieldwork. Once the first two phases are complete, it's time for the auditors to come to your offices and begin their inspection. During this phase, they should thoroughly test your organization's financial statements and other criteria.

Phase 4: Final Report. The auditors should prepare a written report, detailing their observations, findings, and recommendations. Before issuing this report, they should discuss it with your staff, encourage staff members' feedback,

and incorporate that feedback into the final report.

Auditing is a profession that requires deep knowledge and experience as well as solid values and fierce loyalty to the role. Legal risks are at an all-time high, and a well-conducted audit can mitigate such risks. You owe it to your organization, its funders, board members, and beneficiaries to select the best possible auditing firm. ■

Footnotes

¹ The Auditing Standards Board is a division of the American Institute of Certified Public Accountants.

² See "Common-Sense Approaches to Fraud Awareness, Prevention, and Detection" (Vol. 15, No. 4), "Setting Up a Control System for Your Organization" (Vol. 16, No. 3), and "How to Conduct a Monthly Internal Financial Review" (Vol. 9, No. 6) at www.snpo.org.

Resources

Grippo, Frank & Joel Siegel, "Untangling the Audit Confusion," *Nonprofit World*, Vol. 21, No. 3.

O'Neil, Michael, "Preparing for Today's Nonprofit Audit," *Nonprofit World*, Vol. 13, No. 4.

O'Reilly-Allen, Margaret, "How to Have an Audit without Breaking the Bank," *Nonprofit World*, Vol. 20, No. 4.

Owen, John R., "Nonprofits without Audit Committees Risk Disaster," *Nonprofit World*, Vol. 22, No. 2.

Ross, Frank, "The Audit Committee: Why You Need One, How to Form One," *Nonprofit World*, Vol. 6, No. 6.

These resources are available from the Society for Nonprofit Organizations' Resource Center, www.snpo.org.

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