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A Three-Step Approach to Managing an Audit

As a first step, board members overseeing the audit process should set the stage and identify who will be responsible before engaging an audit firm for its services. Here are a few preliminary questions to explore at the outset to set the foundation for a smooth process from A-Z:

Who will be responsible for the audit process?

Will it be the entire board, or a task force or subcommittee of the board (typically named the “audit committee”) and what authority, if any, will be delegated to staff? Whoever is accountable for the audit process should be familiar with the scope of the process, from selecting the audit firm and negotiating the agreement with the auditor, to the fieldwork that the auditors will conduct, the process of both reporting about the audit to the full board, and of evaluating the auditor’s performance after the audit is completed. The person selected as the staff liaison between the auditor and the board/task force/audit committee also should be very familiar with the financial practices of the nonprofit.

What kind of reporting will those responsible for the audit function provide to the full board?

These are some examples of issues to address at the outset: How much detail will the full board want to know about the process? Are there any initial accounting or auditing concerns that the board wants the audit firm to address during the audit? What are the board's expectations for their own involvement and for the auditor's report? For instance, will the auditors be invited to attend a board meeting to present their findings or will the audit committee or a small sub-group of the board make a presentation to the full board, after the audit report has been released by the auditors?

How will potential conflicts of interest be managed?

Inevitably staff members are involved in the audit field work and in preparing the documents that are reviewed by the auditors, so there is always the potential for a conflict in that staff are implementing the internal controls, but are often also the people with the most opportunity to mask financial irregularities.

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