

# NONPROFIT BOARD RESPONSIBILITIES

FOR  
INDEPENDENT  
**\$\$ AUDITS \$\$**  
(and other related matters)

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# Financial Statement Audits “Then...”

1970's and 1980's

- Reasonable Assurance
- that statements “present fairly”
- in all “material respects”
- financial position of entity
- Examination on a “test” basis

# Changes to Audit Environment

- 1992 – Treadway Commission
- 2001 – Enron, WorldCom,.....
- 2002 – Sarbanes – Oxley Act for Public Cos
- 2005 – Report to Congress & Nonprofit Sector on Governance, Transparency, and Accountability-tighten whole process

# 1992-Treadway Commission Study

“Internal control is a process by an entity’s Board of Directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in:

- Effectiveness & Efficiency of Operations (including risk assessment and need to monitor)
- Reliability of Financial Reporting
- Compliance with applicable laws/regulations

# 2005 Report to Congress-Nonprofits

- More Resources-IRS enforcement/oversight
- Improve Annual Information returns (990s)
  - Board/committee review
  - Officer Sign
- Require Audits or reviews-part of 990
- Disclosure of performance data
- “Financial Literacy” of Board/Committee
- Conflict of Interest/Misconduct by members

# Impact on Nonprofit Regulations

- 2006 – 11 SAS's in ONE year
  - SAS 106 – Board responsible for Internal Control.
  - SAS 112 Nonpublic Cos. must report deficiencies to Board
  - SAS 114 Auditor's Communication with Those Charged with Governance
- 2008 – Redesigned Form 990, 11 core parts, 16 Schedules
  - Officer Signs, Questions on governance structure, compensation, program service accomplishments, other major policies

# Impacts on Audits for Nonprofits

- Increased Reporting Requirements
- Increased expectation of “financial literacy” of the Board and Finance/Audit Committee
- Increased Responsibility re Internal Controls, good business practices
  - Conflict of Interest
  - Compensation
  - Business trends
  - Whistleblowers
  - Separation of Duties-cost vs. benefit

# Impact on Auditor Communications

- Auditor's responsibility under "GAAS"-reasonable assurance
- Significant accounting policies
- Management's judgments and accounting estimates
- Significant Audit Adjustments—and uncorrected adjustments
- Auditor's responsibility—other info in audited FS
- Disagreements with management
- Management's consultation with other auditors
- Major issues discussed with mgt. prior to retention
- Difficulties in performing the audit

# Impact on Nonprofit Board & Committee Responsibilities

- Retain/terminate independent auditor
- Oversee performance of audit
- Confer with auditor on “affairs of the org.”
- Recommend approval of audit
- Review internal controls through audit process
- Monitor org’s response to potential illegal/unethical practices, not limited to accounting (incl. Bd. Members, Independence, Whistleblower, Compensation)

# Impact on Structure

- Standing Committee-Finance
  - Budgets, Controls, Audit, “Financial literacy,” risk assessment, financial statement review, financial policies, consider future plans and challenges, options
  - Educates Board to its financial responsibilities
  - No Federal Law on “audit” committees
  - Ad hoc Audit committee if size, complexity requires
  - Does NOT relieve total board of overall responsibility
- Board Development & Awareness
  - Independent Auditor Reports DIRECTLY to Board
  - Board directly responsible for tax returns

# Impact on External Auditor

## INDEPENDENT Auditor

- Subject to Peer Review
- Required to Communicate Matters in writing in addition the Audit
- Reports DIRECTLY to the Board
- INDEPENDENT of the Board
  - Audit itself not “negotiable”
  - IF Board disagrees-get another auditor-must disclose

# Financial Statement Audits

## “Now...”

- Financial Statement Audit
  - Reasonable Assurance
  - that statements “present fairly”
  - in all “material respects”
  - financial position of entity
  - Examination on a “test” basis
- Required Reports on Additional Matters
- Perceived increase in client accountability

# Board Member Budgetary Role

- Budget part of the Internal Controls
- Assess the environment, approve strategy
- Review/approve plans to fund strategy
- Review/approve longer term financial goals
- Review budget in view of these goals
- Approve major policies

# Nonprofit Board must:

- Set the tone “at the top”
- Ensure:
  - Compliance with Laws and Regulations
  - Management has resources:
    - For compliance
    - For monitoring/reporting program effectiveness
  - Recognition of significant trends for appropriate action
- Govern (vs. Manage)