



## Feature Article

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### **Audit Readiness and the "Audit Time" Myth**

By Andrea Mills, FMA Director

With the close of June 30th year ends, many nonprofit organizations are preparing for the season that they grudgingly call "Audit Time" – but, in reality, what does it mean to be ready for your audit? We here at FMA believe that "Audit Time" is year round, and recommend that you always be prepared for an audit, no matter what the season.

Audits are simply a tool to ensure that management is getting reliable, standardized information. Ideally, however, that information should be provided regularly, in the form of your monthly financials, so that management can monitor, gauge and make decisions throughout the year. If an organization is producing financial statements that do not include all receivables and payables, accurate prepaids, timely release of temporarily restricted net assets and other adjustments (such as in-kind services or depreciation), then the information that management is receiving is not painting an accurate picture. To always have financial reports that are as close to audit readiness as possible means that management will always be able to make good decisions.

*But the question remains...how do we get there?*

#### **Analysis of the Balance Sheet**

The first step is to review the accounts listed on the balance sheet on a monthly basis. Sometimes expenses get posted in asset accounts and need to be expensed over a period, or accounts receivables have not been picked up from those charged with development or vouchering for government contracts.

If we have any accounts that require analysis, such as prepaids, then these schedules should be updated monthly or quarterly (depending on volume). All accounts that are required to be reconciled, such as cash or investments, should also be done in a timely manner and fully reviewed.

If the organization started the year with a large temporarily restricted net asset balance, then this balance should be analyzed regularly for the release of restrictions. Adjustments should be made to remove any amounts from temporarily restricted net assets – based on a satisfaction of restriction account on the income statement.



## Analysis of the Income Statement

Next, management should be continually reviewing the status of the income statement – including all income! Some organizations depend heavily on in-kind contributions or have received services that should be noted on the financials. There is no reason why these amounts should not be recorded throughout the year instead of at year end.

Also, depreciation is an easy estimate to record monthly and can be set up as a straight-lined automatic adjustment to the financials, with a final adjustment at year end for any additions. If additions were significant during the year, though, it is recommended to adjust depreciation at the time they were made.

By monitoring these processes on a regular basis, the amount of work at year end should be minimal. Once an organization establishes the goal to produce accurate monthly information, then the year end audit can be treated like any other time of year, and not a reason to put the breaks on everything.

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*For more information on how your organization may better prepare for its annual audit, contact Andrea Mills at [amills@fmaonline.net](mailto:amills@fmaonline.net).*