Audit Vs. Financial Review

Financial accountability is a hallmark of a strong, well-run nonprofit. Boards are responsible for the fiscal oversight of their organization and value the extra level of assurance of having an outside organization review the books. Some organizations have the choice of conducting either a financial review or audit, depending on the size of their revenue. The Form 990 from the IRS asks whether an organization's statements have been compiled, reviewed or audited.

Legal Requirements

In New Hampshire, nonprofits must file annual financial reports with the Charitable Trusts Unit. The nature of what they are required to file varies by budget size.

Budget Size	Requirement/Exception
Less than $50,000	NHCT-12, Schedule A (also file form 990N e-postcard with the IRS)
Between $50,000 and $500,000	Form 990 or 990-EZ
Between $500,000 and $2 million	Must file the organization's latest financial statement prepared in accordance with generally accepted accounting principles in addition to the form 990
Over $2 million	Must file an audited financial statement plus the form 990

Compilation

In a compilation, a Certified Public Accountant assists management in presenting financial information in the form of financial statements, without providing any assurance regarding their accuracy or completeness. A compilation can be used to satisfy the reporting requirement for organizations between $500,000 and $2,000,000 in revenue if prepared under generally accepted accounting principles (GAAP).

Financial Review

A financial statement review is a type of independent evaluation conducted by a Certified Public Accountant (CPA) to provide limited assurance that a nonprofit organization's financial statements are free from material misstatements. It is less extensive than an audit but more involved than a compilation. The review primarily includes inquiries of management regarding accounting practices and principles, analytical procedures to identify unusual trends or inconsistencies in financial data, and limited examination of supporting documentation, without the level of verification required in an audit. It is good practice for the Board of Directors to request a presentation from the CPA and then vote to accept the written review presented by the accountant.

Audit

A financial statement audit is the highest level of assurance service provided by a Certified Public Accountant (CPA). It involves a comprehensive and independent examination of a nonprofit organization's financial records and statements to determine whether they are presented fairly and in accordance with generally accepted accounting principles (GAAP). During an audit, the CPA performs:

- Risk assessment procedures to identify areas of potential concern.
- Tests of internal controls to evaluate the effectiveness of financial oversight.
- Substantive testing of transactions and account balances.
- Confirmation with third parties, such as banks or vendors.
- Detailed inquiries and analytical procedures to assess the accuracy and completeness of financial data.

The auditor obtains sufficient evidence to support their opinion on the financial statements.

There are two phases to an audit:

Planning Phase

In the planning phase, the auditing firm requests an exhaustive list of information which it examines carefully. The firm then communicates with the Board or designated committee about its assessment during the planning stage.

Onsite Visit

The accountant then comes on site to the nonprofit to verify the accuracy of the documents received. On site visits involve reviewing processes and sometime conducting interviews with staff to verify practices are consistent with stated policies and to witness internal controls.

Following internal visits, the accountant then presents the audit findings to the organization, often to the finance committee or full board. As with Financial Reviews, it is considered good practice for the Board of Directors to vote on the written audit presented by the accountant.

The Sarbanes-Oxley Law affects nonprofits that have budgets over $2 million and includes audit requirements.