

# Talking Board Audits

## 10 Critical Questions Board Members Should Ask

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When it comes to pre-audit planning meetings, going through the motions won't cut it. In order for annual audits to be accurate, productive – and meet compliance standards – committee members must be engaged from the get-go. Pre-audit planning meetings set the tone for the entire audit process and can be the difference between doing things right or putting your nonprofit organization at risk.

Every member of the board of directors has a fiduciary obligation to ensure that by-law and policy statements are properly and consistently carried out in practice. It is not enough to simply review financials. Effective preparation comes down to asking the right questions and fostering a strong dialogue with an auditor to put an organization in the best position to succeed.

Most boards are comprised of volunteers. It is common for certain audit committee members, although experts in their professions, to have little or no professional expertise in accounting and identifying governance red flags. Beyond that, most audit committees usually only meet once or twice annually, if that. When you combine a lack of deep expertise with no real familiarity among the people working together, it can create a setting where committee members feel insecure.

Most committee members don't want to admit their insecurity because it would make them appear "weak." They do not realize they're not alone in the sentiment. As a result, board members often shy away from asking the hard questions necessary to get the most comprehensive and effective quality audits. That's only compounded by the fact that most boards do not have ongoing relationships with their auditors.

In today's environment of heightened compliance requirements, boards cannot let a lack of preparation or communication jeopardize the quality of their audits and put their organizations at risk. To break down those communication barriers and help audit/finance committees better prepare (without micro-managing), here are the most

important questions to ask in annual pre-audit meetings. These questions will foster dialogue, uncover more relevant information and put organizations in the best position to succeed.

### 1. What is the planned scope of your audit?

Establishing a framework for the audit up front is essential. Consider factors such as what percentage of accounts receivable will be confirmed, how accounts payable will be verified and how auditing procedures like financial statement areas and control testing will be rotated. It's also important to identify how the planned scope of the current audit might differ from prior years or prior audit firms.

### 2. Are there any activities that will not be audited that present business or financial risk but are not viewed as "material"?

Be sure to note any areas the audit will not touch and establish materiality during the audit planning process.

### 3. Are the key processes appropriately identified?

Ensure the right focus by defining key business functions and procedures. Be sure to address any concerns with how management controls key business processes.

### 4. Will you utilize computer auditing techniques to review our computer processes?

Computer-assisted audit techniques (CAATs) create additional layers of analysis and detail but require specific expertise. In the planning process, set clear expectations for what technology will be used, in what capacity, and how results will be prepared and delivered.

### 5. How have you staffed the engagement?

The right staffing choices go a long way in reducing the insecurity and uncertainty in the audit process. Prioritize personnel continuity and set clear expectations for participation from the engagement partner and manager.

## 6. Are there any proposed accounting, auditing or reporting rules that could materially affect the organization's financial statements?

Make sure you're using the most up-to-date processes and standards from the organization, including factoring in relevant pending or proposed changes.

## 7. What non-audit services do you provide the organization and what are the approximate fees?

Defining the full extent of the relationship and payment is crucial to pre-audit preparations. Identify potential conflicts through an open dialogue between the audit team and the organization with an eye toward how performance of any non-audit services affect independence.

## 8. Do you anticipate any special problems in this year's audit?

Take a realistic look at how this year's audit might be different from years past. Specifically flag any potential issues when presenting a draft to the Audit/Finance Committee and issuing the final financial statement.

## 9. When do you expect to complete your audit?

Set a clear timeline to relieve pressure and uncertainty around the audit process. Everyone involved should know where the process stands and when the audit will be finished.

## 10. Based on your present knowledge, what type of opinion would you expect to render?

It pays to start thinking about potential outcomes early. Whether you're expecting a smooth process or a particular set of issues, incorporate these inclinations into your overall plan and approach.

An annual audit is a time-intensive process that can deliver real value and insights in addition to meeting rising compliance demands. Asking the right questions at the outset is crucial to establishing proper communication and creating a unified team to tackle the audit process.

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