

## Financial Audit—An Expense Or An Investment?

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**M**any nonprofit organizations (NPOs) are required for various reasons to present audited financial statements. Some of these organizations think of an audit as an expense. They see auditors as watchdogs, and they do not have the most pleasant experience with their auditors. Although the main purpose of an audit is to provide reasonable assurance that the financial condition of an organization is being fairly presented, organizations can get much more than fairly stated financial statements during an audit process. In order to utilize an audit to the fullest extent, organizations need to think of an audit as an investment rather than an expense and see their auditors as their long-term partners.

It is very important for NPOs to keep accurate accounting records to assess the financial health of their organizations and financial impacts of their strategic decisions. Management of organizations often makes decisions based on the financial information they have available; therefore, it is very important to have accurate financial records to make sound decisions. Auditors propose correcting adjustments resulting from the procedures they perform that make the financial statements more accurate than they would have been otherwise. They also identify financial risks that organizations face that the management might be otherwise unaware of to improve organizations' finances or even save them from bankruptcy.

Another benefit organizations get from an audit is the reduced risk of fraud happening within the organization. Although an audit does not guarantee that there has been no fraud in an organization, the new procedures auditors perform in accordance with the Statement of Auditing Standards (SAS) 99 reduce the probability of fraud.

Many auditors also provide various year-end financial management services that are not part of the audit. These include preparing year-end financial statements based on client records, notes to the financial statements, depreciation schedules, accrual, and other adjustments based on client information.

In addition, auditors have in-depth knowledge of the industry their clients operate in and can provide valuable advice on many operational aspects of NPOs. The auditors work with many organizations and this experience enables them to gain knowledge on best business practices. NPOs can consult their auditors on many issues, such as insurance, retirement plans, fundraising and unique taxation issues facing NPOs.

Finally, organizations also receive useful recommendations via management letters that are issued by the auditors at the end of many audits. The auditors may have observed weaknesses in financial controls and other financial matters. These are brought to the attention of management, including suggested recommendations for improvement.

Although auditors can provide the management with many value added services regarding an organizations' operations and finances, it is very important to keep in mind that board members and managers are the ones who are primarily responsible for their operations and accuracy of financial information. Since audits can be expensive for many NPOs with limited resources, organizations need to be well prepared before an audit and identify the areas that they need to improve in order to keep the cost of an audit down. Organizations that understand the benefits of an audit and the services their auditors provide can turn their "audit expense" into an investment with high returns.

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