



**SERENIC**<sup>®</sup>  
SOFTWARE

# Eliminating Audit Anxiety

## Nonprofit Accounting Whitepaper

A whitepaper by David Capitano

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While some nonprofits think of a financial statement audit as a giant headache, others have found the process to be not only pain-free but also a source of new insights for the organization. What accounts for the difference in perspective? For many nonprofits, it comes down to investing in the people, processes and tools that best support their mission.

## The Nature of an Audit

The primary objective of an audit is to provide assurance that the financial statements are “free of material misstatement.” In plain English, an auditor’s goal is to gain evidence that the numbers are accurate. A financial statement audit is conducted by an independent professional (a CPA) in accordance with standards provided by the American Institute of Certified Public Accountants (AICPA). These professional standards require an auditor to do the following:

1. Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. (Nonprofit financial statements must also be in conformity with FAS 116 and 117.)
2. Examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
3. Assess the accounting principles used and the significant estimates made by management. (For nonprofits, these principles would include compliance with FAS 116 for contributions given and received.)
4. Evaluate the overall financial statement presentation.

## Taking the Pain Out

The goal for a nonprofit is to meet the auditor’s objectives with the least amount of pain for both parties. That’s where the right audit team and the right automated solution can make a difference. We asked David Capitano, CPA and Regional Managing Partner with ParenteBeard LLC for advice on making nonprofit audits as smooth as possible. The resulting suggestions can help organizations of all sizes use technology to assist their auditors in complying with professional standards.

## Auditor’s Goal: Plan and Perform the Audit Your Goal: Communicate all Year

Check in with your auditor regularly for information about any reporting or regulatory changes that could impact your organization or the audit.

Likewise, as organizational and operational changes occur, notify your auditor of any changes that might impact audit scope. Consider notifying your auditor of changes in the way you operate your organization, receive funding, use your automated system, manage workflows with respect to separation of duties, or assign roles or responsibilities.

Thanks to Serenic® Navigator, your auditors can readily assess your compliance with FAS 116 and 117 through management and reporting on:

- Multiple Funding Sources
- Donor Restrictions
- Expense Tracking & Reporting by Functional Category and/or Natural Account Classification

*“If we come across changes that we believe will impact our nonprofit clients in the coming year, we’ll alert them so we can all start thinking about the resources and training required to comply with new rules. Regular communication throughout the course of the year puts everyone on the same page and makes the audit a routine process – not an overwhelming event.”*

— DAVID CAPITANO

## Auditor’s Goal: Examine Evidence Your Goal: Offer Easy Access

Make it easy for an auditor to gather evidence that provides “reasonable assurance.” The more organized and accessible you make your information, the better. With Serenic Navigator, you can take advantage of features that put information at your fingertips:

- **Export information to Excel.** Rather than providing printed reports, share information with auditors electronically for most efficient access.
- **Set up role based access.** Create a review only role that is assigned to the audit team so they have direct access to the information they need.
- **Centralize and store source documents** and correspondence as attachments at both the transaction and the master record (i.e., fund, vendor, donor, grant) level.

*“We give the client specific guidance which may include things like closing the books and records, making journal entries, producing cash flow statements and other financial reports, or making reconciliations,” says David. “Then the auditing team can begin their work with the data collected and the reports put together by the internal staff. The byproduct of all this is that the firm and the nonprofit work as a team to identify best practices, so we can do it even better next year.”* — DAVID CAPITANO

## Auditor's Goal: Assess Principles Applied and Estimates

### Your Goal: Provide Proof

Having a mission statement and a set of organizational values is important, but an auditor will want evidence that supporting policies and procedures are being followed. You can prove that organizational and FASB standards are being routinely applied using features of your automated system, including:

- **Business rules.** Prevent errors using automated business rules that monitor revenue and program restrictions and restrict unauthorized account use.
- **Automated workflow.** Set up routines to route transactions across departments and funding sources to the proper members of your team for review and approval.

*“With a good internal team, audits tend to run smoothly year after year, and the audit serves to validate the best practices used by the nonprofit. What may put the process at risk could be circumstances such as internal turnover (loss of a key team member) or if the organization gets a new funding source with unfamiliar restrictions and regulations – but that’s where we are able to help our clients. That is just another example of the importance of communication and teamwork.” — DAVID CAPITANO*

## Auditor's Goal: Evaluate Financial Statement Presentation

### Your Goal: Be Transparent

The end result of accounting for all of those organizational transactions is the financial statement. Here, the auditor's goal is to obtain confidence in the accuracy of the information presented on your financial statements. You can make the auditor's job easier by building internal work papers that provide clear insights into your organizational results. It is a good practice to request a list of the work papers and schedules your auditor will need 60 days ahead of the audit. This will give you time to gather and organize requested information so that fees are kept as low as possible. An automated system like Serenic Navigator makes it easy to create meaningful schedules in a number of different ways:

- **User-Defined Reports.** Create custom views of financial statements using rows and columns that you define and then drill into source transactions (give your auditor access to these schedules online to reduce the number of printed reports they have to generate).
- **Financial Reports.** Create customized financial statements in an Excel environment with specialized formatting and drill downs to live transactional data knowing that once posted it can't be changed again.
- **Programmatic reporting.** Create reports by programs and/or functional categories you define using dimensions.

*“The audit process must not be taken lightly. It needs to have proper allocations of time and resources; it needs to be well-planned. But you and your team should never feel fear or anxiety about an upcoming audit. If you feel anxious, it’s an indication that there are unclear communications and that expectations haven’t been clearly defined.”*

— DAVID CAPITANO

## Less Pain, Plenty of Gain

“An audit should be a win-win scenario,” says Capitano. “That’s how we approach every audit. We have a responsibility to the nonprofit and the third party requiring the audit. What we most often find is that, rather than identifying problems, the audit underscores just how well a nonprofit is managing its organization and meeting its mission.”

In the end, audits are conducted to ensure transparency between your nonprofit and those who fund it. An audit will reflect how well you’ve been able to manage your funds and your mission throughout a given time period. Having the right accounting software – a solution like Serenic Navigator, which is developed specifically for the nonprofit sector – will ensure proper stewardship of funds while making it easy to generate the reports you need for audit support and management decision-making year round.



## About Serenic Software

Serenic Software develops and delivers mission-critical ERP software solutions for public service organizations including: K-12 school districts/boards, public sector, nonprofits (NPOs), and international non-governmental organizations (NGOs). Serenic is a Gold ERP and ISV vendor and a development partner for Microsoft. Serenic public service solutions are trusted by over 1,000 organizations around the globe. You can learn more about Serenic Software at [www.serenic.com](http://www.serenic.com).

## About David Capitano

David Capitano has over 20 years of experience in auditing, accounting and consulting for higher education institutions and not-for-profit entities. He was with an international CPA firm prior to joining ParenteBeard LLC in 1991. Dave is a Certified Public Accountant in Pennsylvania and West Virginia, and a member of the American Institute of Certified Public Accountants, the Pennsylvania Institute of Certified Public Accountants, the National Association of College and University Business Officers, the Eastern Association of College and University Business Officers, and the National Association of Student Financial Aid Administrators.

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