



Making the most of your nonprofit's internal audit function

The key role of a not-for-profit's internal auditors was once limited largely to testing financial and compliance controls and reporting their findings to the organization's leadership. But today, with their cross-departmental perspective, internal audit staff (whether employees or outside consultants) can help anticipate and mitigate a variety of risks, improve processes — and even help evaluate your nonprofit's strategies.

Core job

On its most basic level, the internal audit function provides independent assurance of compliance with a nonprofit's internal controls and their effectiveness in mitigating financial and operational risk. Potential risks include fraud, insufficient funds to support programming and reputational damage.

Internal auditors start by identifying a nonprofit's vulnerabilities and prioritizing them from high to low. Through testing and other methods, they then assess the effectiveness of internal controls. Auditors document their results in reports that include recommended improvements.

Internal auditors further evaluate compliance with laws, regulations and contracts. They follow up on management's remediation actions to eliminate identified risks and assist external auditors, when applicable.

The effectiveness of the internal audit function hinges on auditor independence. Auditors should be independent from management and all areas they review to avoid bias or a conflict of interest. Auditors should report directly to the board of directors or its audit committee.

Expanded function

Although the internal audit function is often viewed mainly through the prism of compliance and internal controls, it has a lot to offer beyond risk assessments and audit plans. Savvy nonprofits have begun to tap internal audit for strategic purposes.

Auditors may serve as internal consultants, providing insights gathered while performing compliance and assessment work. For example, while reviewing invoices, internal auditors may discover a way to streamline invoice processing.

The internal audit function's familiarity with the organization's inner workings also affords it an unusual perspective for evaluating strategic opportunities. Does your nonprofit have a financial weakness that could undermine plans for continuing current programs or launching new ones? Your internal auditor probably knows the answer.

Ask for more

Increased public scrutiny of how nonprofits are governed and held accountable makes an effective internal audit function a must. But internal auditors can offer your nonprofit more than financial and compliance oversight. To ensure you're making the most of this function, contact us.

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