

Maximising the value of audit

*A guide for not-for-profits
and charities*

An audit can help strengthen your organisation's credentials, offering your stakeholders the additional opinion of a qualified, independent professional on the quality of your organisation's financial statements.

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1. How audit contributes to not-for-profits and charities



At a glance

Every year, thousands of not-for-profits (NFPs) and charities across Australia and New Zealand undergo an audit. Those that understand the potential value of their audit are much more likely to reap the full benefits. This guide explains how to do that.

If you work for a NFP or charity, you'll appreciate how important it is to demonstrate that your organisation correctly accounts for the funds entrusted to it.

Your annual financial statements are an important communication tool in this regard, explaining to key stakeholders, including your donors, regulators and banks, the impact of your organisation's activities, and the adequacy of the financial controls and processes you have in place to meet your objectives.

An audit can help strengthen your organisation's credentials in this regard, offering your stakeholders the additional opinion of a qualified, independent professional on the quality of these financial statements.

This is why so many NFPs and charities are required by legislation, regulation or contract terms to engage a qualified professional to undertake an audit. (For example, a sponsor may contractually require this).

In other instances, an audit may not be a formal requirement but your board and/or management team may see an audit as worthwhile or necessary.

Whatever your reasons for initiating an audit engagement, the process helps foster trust, benefiting both your organisation and the relationships it relies upon. Your auditor is an independent expert and this impartiality and objectivity is key. It can help your organisation to not only be accountable, but also be *seen* to be accountable.

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1.1. Tangible benefits

In addition to the benefits an objective independent opinion on your financial statements offers your stakeholders, an audit can also provide additional tangible benefits to your NFP or charity's management team. These include:

- Strategic assessment of governance and risk management processes;
- Access to external expertise and industry best practice; and
- Ongoing recommendations and evaluation.

1.1.1. Strategic assessment of governance and risk management processes

When conducting the necessary risk assessments required as part of the audit, your auditor will gain a detailed understanding of key parts of your organisation.

From determining the adequacy of internal controls over reporting, to addressing the risk of fraud and identifying opportunities to improve your reporting processes, your auditor's understanding of these important governance processes can be put to good use.

While an audit does not provide guarantees, it does offer your stakeholders a high level of assurance that key procedures and aspects of your governance have been independently examined.

If you wish to go further, discussion with your auditor at the planning stage can extend the scope of their work to cover some of these areas:

- Providing a strategic assessment of governance systems and processes;
- Providing a strategic assessment of risk management processes;
- Identifying operational inefficiencies;
- Identifying opportunities for cost savings;
- Promoting best practice for internal controls and processes; and
- Reviewing IT systems and digital technologies.

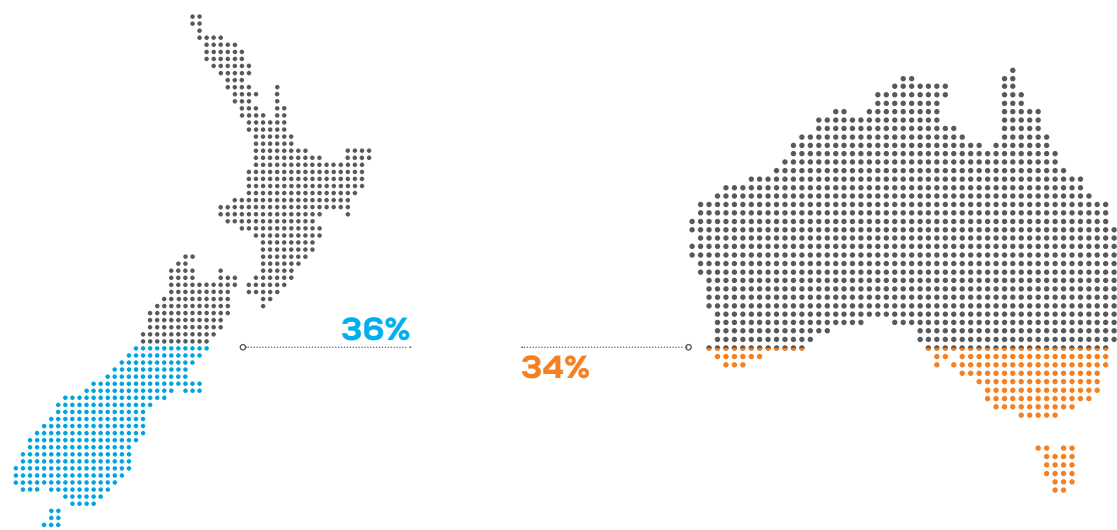
Understanding what an audit is

Maximising the benefits of an audit starts with having a good understanding of what an audit involves and what the outputs are. A Chartered Accountants ANZ and the Association of Chartered Certified Accountants [survey to gauge the public's understanding and expectations of audit](#) found that more than one third of Australian (34%) and NZ (36%) respondents were confused over what an audit is.

An audit engagement allows an auditor to provide an opinion on the financial statements that an entity prepares to explain their financial operations and comply with required laws and regulations. The audit report summarises all the evidence the auditor has collected and the activities they have undertaken to support their opinion on whether your financial statements comply with the required rules and standards.

For more details about what an audit involves, and how it differs from other services Chartered Accountants can provide, [read this Chartered Accountants ANZ guide](#).

Figure 1: Percentage of respondents who are confused about what an audit is



With the right approach, your auditor can become a valued independent partner in helping you to advance your organisation.

1.1.2. Access to external expertise and industry best practice

Your auditor is a qualified professional who is external to your business. This allows them to be objective, offering a fresh perspective. It also means they are removed from internal politics, hierarchies and influences within the business.

Auditors are typically analytical, sceptical and questioning in nature. During the audit, they will see your organisation's processes and systems in action and may provide useful insights on these. They can also provide an important sense check when key judgements and estimates are being made for financial reporting purposes.

At the same time, your auditor has access to external expertise. While they are bound by confidentiality and cannot share specific details from other organisations they have audited, they can share industry trends and best practice with you.

If your auditor is a member of Chartered Accountants ANZ, they have access to tools and resources, as well as a worldwide network of trusted business, NFP and finance leaders. From benchmarking performance, to sharing industry insights, your auditor can add significant value simply by virtue of being exposed to multiple organisations and peers.

Similarly, your auditor is dealing with financial reporting regulations and requirements on a daily basis so, when it comes to regulation, your auditor may be the most up-to-date, financially literate person in the building.

1.1.3. Ongoing recommendations and evaluation

An audit can be so much more than a perfunctory compliance exercise. With the right approach, your auditor can become a valued independent partner in helping you to advance your organisation.

Your auditor can offer insights on a wide range of issues including:

- Managing your internal controls to maximise the efficiency and accuracy of accounting records;
- Developing the tools to measure and interpret trends over time; and
- Considering additional information that should be included in the financial statements so that those documents present a balanced and appropriate message on how the organisation is pursuing its objectives.

Similarly, given time and opportunity, your auditor can also be a sounding-board during decision-making. When making a strategic choice, there may be unintended consequences (e.g. cashflow, ongoing holding costs, taxation or regulatory requirements) that your organisation has not considered, and your auditor may be best placed to point these out for you.

In the same way that your auditor can be a source of best practice, they can also be a valuable consultant on issues such as how financial reporting requirements apply.

2. Getting the most out of your audit



At a glance

There are several steps that a charity or NFP can take to extract maximum value from their audit. These steps can also help ensure the process goes as smoothly as possible for your organisation.

Chartered Accountants ANZ has found [high-quality audits are best achieved when everyone in the financial reporting supply chain collaborates with, and supports, auditors](#). In response, Chartered Accountants ANZ has compiled the following tips to help you help your auditor. This can help you get the most value out of the audit process:

2.1. Look for a good fit

Choose the auditor that's right for your organisation. Make sure they meet the required legislative or other criteria.¹

Then select someone who understands your organisation's purpose (and, ideally, is passionate about your cause).

When selecting an auditor consider:

- Do you have a rigorous tender process?
- Have you asked potential auditors to explain what value they can add?
- How well do they understand your industry?
- What experience do they have with NFPs and charities?

2.2. Think beyond the cost

Resources can be limited within NFPs and charities, but the best audit for your organisation may not necessarily be the cheapest one. Talk to prospective auditors about the services they offer and the value they might add as part of their audit process. A good auditor can uncover hidden opportunities to improve your organisation. A high quality audit can prove priceless.

2.3. Build a partnership

By establishing an ongoing relationship with your auditor, including clear and regular lines of communication, you may save your organisation time and money. For instance, talking to your auditor before you embark on service performance reporting allows you to confirm exactly what information your auditor will need – and when – in order to form an opinion of your reporting.

Scheduling routine phone calls or emails with your auditor helps ensure they have timely, relevant information about your organisation. It also helps your NFP or charity make the most of the auditor's expertise and knowledge.

¹ In both Australia and New Zealand, the audits of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these areas, an audit should be undertaken by a suitably qualified accountant following auditing standards. A Chartered Accountant meets this standard.



A high quality audit can prove priceless.

2.4. Mind the (expectation) gap

Be realistic when it comes to what is (and is not) included within the scope of an audit. Talk to your auditor to ascertain what will be covered in their engagement and, therefore, in their final audit opinion. Also explain to them any specific objectives/questions you have for the audit engagement. The scope of an auditor's work is limited to some extent by professional standards, but your auditor can advise you of what is and is not possible.

The Institute of Chartered Accountants in England and Wales has published [a handy guide to the scope of audit services](#).

2.5. Prepare

Preparation is vital when it comes to audit. Get a clear understanding from your auditor about what documents will be required and when they will be needed. Make the process as straightforward as possible by sharing documents with your auditor via a secure online platform, and using online accounting software to upload supporting documents, ensuring your data is easily accessible. For more details, see the break-out box titled "[Preparing for your audit](#)" on page 8.

2.6. Be proactive

Instead of seeing audit as a compliance burden, approach it as an opportunity to learn and to enhance your organisation. Commonly, an auditor will identify areas to improve your organisation's processes and systems. Share these learnings with relevant colleagues. Ask your auditor how you might address any issues they have flagged, then draw up an action plan and run that past your auditor for their feedback.

2.7. Do not set and forget

As we have outlined earlier in this guide, part of an auditor's value proposition is providing an independent opinion. However, to maintain independence, auditors may need to rotate their clients from time to time. (Your organisation may also have its own rules around a preferred frequency of auditor rotation).

To ensure your transition to a new auditor is smooth, your organisation can maintain an up-to-date record of how it selects and engages with new auditors. This can avoid reinventing the wheel every few years, each time you engage a new auditor.

Preparing for your audit

The Australian Charities and Not-for-profits Commission (ACNC) offers the following advice when you prepare for your audit:

- Record any accounting problems recognised before the audit;
- Try to fix these problems and, if they cannot be fixed before, write a plan on how your NFP or charity will fix them;
- Ask the auditor to provide you with a schedule of the audit before they start, outlining what they need from you and when they plan to conduct the audit;
- Contact the auditor before the engagement begins to clarify any points you are uncertain about;
- Provide your auditor with some desk space and schedule time for people to meet with them; and
- Inform all staff about the audit and what is expected from them.

Source: [ACNC: Review and audit practical tips](#)

Other types of assurance

In Australia and New Zealand, legislation requires some charities and NFPs to undergo an audit. However, there are circumstances where this is not mandatory (e.g. smaller charities) and, in these instances, an alternative type of engagement may suffice.

- [This CA ANZ guide](#) outlines various types of engagements including audits, reviews, compliance, agreed-upon procedures and compilation.
- [This ACNC guide](#) outlines the requirements for different types of charities in Australia.
- [This Charities Services guide](#) outlines the requirements for different types of charities in New Zealand.
- [This XRB guide](#) provides further details.



3. Resources



A comprehensive range of information about reporting requirements that may apply when you work with and for charities and NFPs in Australia and New Zealand.

3.1. Chartered Accountants ANZ resources

[A guide to audit, assurance and related services](#)

[A guide to assurance engagements for NFPs in New Zealand](#)

[Fact sheet: Important changes to the Australian financial reporting framework for not-for-profits](#)

[A guide to not-for-profit cash reserves](#)

[A guide to renumeration not-for-profit directors](#)

[Reforming the use of special purpose reporting](#)

[Audit and assurance news and updates](#)

3.2. More resources

[NZAuASB: New Zealand assurance standards](#)

[AUASB: Australian assurance standards](#)

[ACNC: Preparing for your review or audit](#)

[ACNC: Guide to assurance/review requirements for different types of charities](#)

[Charities Services: Guide to requirements for different types of charities](#)

[XRB: Small charities assurance needs](#)

[ACNC and AUASB: Audit and review templates for charities with a reporting period ending on or after 15 December 2016](#)

[AASB: Not-for-Profit Private Sector Financial Reporting Framework review](#)

[The Australian Treasury: Increasing financial reporting thresholds for ACNC-registered charities](#)

[ACNC: Charity operations and COVID-19](#)



4. Acknowledgements

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