



# Mastering Audit Oversight and Readiness for Nonprofit Leaders

## Advanced Fiscal and Financial Management for Nonprofits

May 5, 2026

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# Changing Perceptions About Audits and Audit Committees

3

Innovative “Value-Added” Strategies and Tactics to Consider

Changing Perceptions and Value-Added

Important words that highlight how organizations could be doing “better job” with the audit process and their audit committees

# Changing Perceptions About Audits and Audit Committees

4

## Innovative “Value-Added” Strategies and Tactics to Consider

- Changing Perceptions
  - Audit Process and Purpose
  - Audit Committees
  
- Value-Added
  - Assess Impact
  - Expand Responsibilities
  - Align Right Players
  - Leverage Results

# Changing Perceptions About Audits and Audit Committees

5

Innovative “Value-Added” Strategies and Tactics to Consider

Organizations will benefit from **pushing**

**Staff and audit committees**

To be **More** proactive and effective

**Financial statement audit process**

# Changing Perceptions About Audit Committees

6

## Innovative “Value-Added” Strategies and Tactics to Consider

### Different Roles – Audit Committee, Finance Committee, Mgmt and Staff

#### Audit Committee

- Safe-Guarding Assets
- Looking Back
- Oversight Audit

#### Finance Committee

- Managing Assets
- Looking Forward
- Oversight Financial Reporting

#### Mgmt and Staff

- Manage Operations
- Budget Resource Allocations
- Financial Reporting
- Maintain Security

#### All – Protect

**Continuity, Mission, Sustainability, and Reputation**

# Changing Perceptions About Audit Committees

7

## Innovative “Value-Added” Strategies and Tactics to Consider

### Topic I – Audit Oversight

- A. Best Practices for Effective Audit Committee Function
- B. Perceptions
- C. Make Audit Committee More “Value-Added”

### Topic II – Audit Readiness Proactive Timeline Tactics

### Topic III – Leveraging Audit Results – “ROI”

## Topic #1-A

# Audit Oversight

## Nonprofit Audit Committee

1. Purpose, Structure, Operating Cycle
2. Perception
3. Make Audit Committees More Value-Added

# Nonprofit Audit Committee

## Purpose, Structure, and Operating Cycle

### Audit Committee Key Components

#### 1. Purpose

##### A. To Be an Independent Governance Body

- Free from influence, be objective (perceived and actual)
- Independent from management

##### B. Manage Financial Statement Audit Process

- Auditor meetings, timeline, acceptance, auditor continuance

##### C. Risk Management – Assessment/Oversight

- Policies, practices, IACS (internal accounting control systems)
- Review prior audit findings and assess current changing conditions

##### D. Approval Authority

- Audit approval process
  - Recommendation to Board vs. approval by audit committee

# Nonprofit Audit Committee

## Purpose, Structure, and Operating Cycle

### Audit Committee Key Components

## 2. Structure

### A. Who Sits on the Audit Committee

- Financial expertise, prior experience, Board vs. Non-Board member

### B. Appointment

- By Board, what if no audit committee (use of finance committee or other options)

### C. Size

- 3 to 5 members, consider quorum, additional expertise, (other considerations)

### D. Chair

- Expertise, add job description for chair, add charter for audit committee

### E. Staff Liaisons

- Who!!!, contact protocols, communications with treasurer (finance committee)

# Nonprofit Audit Committee

## Purpose, Structure, and Operating Cycle

### Audit Committee Key Components

## 3. Operating Cycle

### A. Calendar

- Dates, assignments, reporting to Board, filings, etc.

### B. Meeting Agendas

- Each committee meeting will have different purposes, roadmap

### C. Highlight Key Dates for Deliverables

- Meetings with auditors, general ledger trial balance, other info.

### D. Define Beginning and End of Meeting Cycle

- Beginning cycle (auditor continuance), End cycle (Board approval)

### E. New Audit Committee Orientation

- Set goals, review prior year, anticipate changes for current cycle

# Nonprofit Audit Committee

## Purpose, Structure, and Operating Cycle

12

### Discussion Question #1

Do you have a separate audit committee, or do you rely on a different committee like a finance committee for audit oversight?

Yes [ ] (audit committee)

No [ ] (other committee – finance committee)

If Yes, does the organization have some standard operational procedures [Yes] in place to guide the audit committee or [No] standard procedures or working rules used?

Yes [ ] No [ ]

Please add comments

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# Topic #1-B

Why Perception

is a

Key Issue

## Why Perception is a Key Issue?

14

Perception is a “**Big Issue**” because:

- **People Generally Understand that Audit Committees**
  - **Exist**
  - **Important**
  - **Needed**

**However, they Cannot Answer With Confidence**

**Why?**

## Why Perception is a Key Issue?

15

- **Consequently**
  - **Answering the Why Question Will Help Avoid:**
    - **Wrong People are Assigned to Audit Committee for Wrong Reasons**
    - **Causing Audit Committee to Lack Purpose and Direction**
    - **Committee Members will Not be in Position to do Best Job**
    - **Efficiency and Effectiveness**

## Why Perception is a Key Issue?

16

- Board Members Need to **Understand What Audit Committees are Charged With** and How it Impacts Board's Fiduciary Roles
  - Board Members Must Know **What Authority has been Delegated** to Audit Committee
    - Audit Committee **Does not Replace Board Fiduciary Responsibilities**

# Why Perception is a Key Issue?

17

## Answer

### Audit Committee: **(Add)**

- **Chair Job Description**
- **Working Plan Guidelines (Charter)**
- **Annual Orientation Meeting**
- **Essential** – Provides:
  - **Formal Guidance**
  - **Improves Understanding**
    - **Not Just for Audit Committee**
      - **Also, for Board Members who are Delegating Important Tasks to Audit Committee**
  - **Overall, Improves Performance and Efficiency**

# Why Perception is a Key Issue?

## Discussion Question #2

Do you believe your Board members generally understand important responsibilities and operational purposes of an audit committee?

Yes [ ]

No [ ]

For “No” answers list some of the general misunderstandings by Board members related to audit committees:

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_

## Topic #1-C

# Tactics

## Make Audit Committees

More Value-Added

## Tactics to Make Audit Committees More Effective

20

### Most People Assume Audit Committees are Automatically Value-Added

Correct statement

**But this is the Problem**

*“They do not really know what an audit committee is supposed to do or how the audit committee performs its job and how they are supposed to support the organization and add value”*

# Tactics to Make Audit Committees More Effective

21

- 1. Raise Board Member Awareness**
- 2. Take Advantage of Board Training Sessions and/or Board Retreat**
- 3. Discuss Purpose and Roles of Audit Committees**

# Tactics to Make Audit Committees More Effective

22

## Discuss – Audit Committee

- **Evaluate** – is following Working Well and Effective:
  - **Managing Risk**: Conducts or reviews risk assessments of organization's operations, finances, and governance
  - **Auditor selection**: Responsible for selecting, evaluating, and potentially dismissing independent external auditor
  - **Financial oversight**: Reviews the work of chief financial officer, oversees financial reporting process, and reviews audit reports
  - **Whistleblower protection**: Investigates complaints and concerns, and ensures no retaliation against person making the report

# Tactics to Make Audit Committees More Effective

23

## Discuss – Audit committee

1. **Are** Changes Needed?
2. **Are** We Placing?
  - Right People on Audit Committee
  - Aware of Skills Needed
  - Form a Complementary Working Team

# Tactics to Make Audit Committees More Effective

24

## Discuss – Audit committee

- **Have we?**
  1. **Asked if these People Want to Serve on Audit Committee**
  2. **Empowered Audit Committee to Add Value**
  3. **Addressed What Authority do they Have**
  4. **Given Guidance on Areas of Emphasis**
  5. **Considered Work Capacity**

# Tactics to Make Audit Committees More Effective

25

## Discuss – Audit committee

- **Consider if they Can Fill Other Roles:**
  - **Whistleblower protection**: Investigates complaints and concerns, and ensures no retaliation against the person making the report
  - **Ethics, Parliamentarian, Governance Compliance** (by-laws)
  - **Favorite:**
    - **(Meet and Observe Other Committees – Raises Risk Awareness)**
      - Finance Committee
      - Fundraising Committee
      - Membership Committee
      - Annual Meeting Convention Committee

# Tactics to Make Audit Committees More Effective

26

## Discuss – Audit committee

- How Can they Stay Active Throughout the Year?

## Not go Silent

- **Answer**
  - Expand the audit committee meeting schedule so it is **meeting on a regular basis throughout year**
    - Most audit committees only meet during external audit process

# Tactics to Make Audit Committees More Effective

27

## Discuss – Audit committee

- How can they stay active throughout the year – not go silent?
  - **Plan to meet** quarterly (4 times a year) or semi-monthly (6 times a year) adding additional meetings as necessary
  - Meeting schedules like this **emphasizes** that work of audit committee is both:
    1. **Operational**
      - (important to infrastructure and business practices)
    2. **Continuous**
      - (constant without breaks and connected)

# Tactics to Make Audit Committees More Effective

28

## Discussion Question #3

How often does your organization's audit committee meet during the year?

- a) Two meetings
- b) Three meetings
- c) Four meetings
- d) Monthly meetings

Does your organization's audit committee only meet during the audit process?

Yes [ ] No [ ]

## Topic #2

# Audit Readiness

*“Proactive Timeline Tactics”*

# Audit Readiness – Proactive Timeline Tactics

30

1. Audit Preparation
2. Audit Lines of Communications
3. Audit Calendar

Take the Initiative (be)

*Prepared, Proactive, and Positive*

## 1. Audit Preparation

- **Audit Preparation Checklist**
  - **Key Tactical Inclusions:**
    - Update Audit Calendar Timeline for Current Year
      - See step #3
    - Confirm prior year (PY) audit TB matches GL
      - Reconcile any differences
      - Confirm all PY audit entries posted (in correct year)
      - Confirm beginning net assets reconcile with audit
    - Protocols for PBCs, assign responsibilities (who, what, when)
    - Review PY audit findings and governance letter disclosures
    - Draft updates to financial statement footnotes

## 1. Audit Preparation

- **Audit Preparation Checklist**
  - **Key Strategic Actions:**
    - Review year-end closing procedures
    - Mandate monthly reconciliations be audit ready
    - Consider scheduling interim (pre-year-end) audit procedures
    - Provide early information to auditors for unusual transactions
    - Advance planning for hard to record transactions:
      - Hard to value investments
      - Joint ventures
      - Third-party management
        - Magazine, advertising, fulfillment, inventory, etc.

# Audit Readiness – Proactive Timeline Tactics

33

## Discussion Question #4

Do you have/use an annual audit preparation checklist?

Yes [ ]

No [ ]

Please share some of your favorite preparation checklist items/considerations/tasks that have had a positive impact on improving audit efficiency and timeliness:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

## 2. Audit Lines of Communications

- Audit **Open-Lines** of Communications
  - **Key Tactical Strategies and Efforts**
    - Plan for monthly status calls with auditors
      - During audit process
        - Status and progress updates
      - Remainder of Year
        - Inform of new activities, risk assessments, changing conditions
    - Establish “open-line” communication protocols
      - Finance department staff
      - Senior management
      - Audit committee
      - Board

### 2. Audit Lines of Communications

- **Audit Open-Lines of Communications**
  - **Add** “Kick-Off” Pre-planning meetings with auditor
    1. Not required but usually worth the effort
    2. Separate meetings for:
      - Management and staff
      - Audit committee
    3. Share
      - Calendars, contact info., names, responsibilities, etc.

## 3. Audit Calendar

Agreeing on a Detailed Planning Calendar at **Front-End of Audit** Process will make for a Less Stressful and More Efficient Audit Process

Divide Audit Planning Calendar into **Chronological Sections**

## Audit Planning Calendars Can Make Audits Less Stressful

1. Pre-Audit Planning Meetings – (Dates)
  - Staff Audit Planning Meetings
  - Audit Committee Initial Planning Meeting
  - Auditor Introductions (Meet Audit Team and Exchange Information)
2. Auditor Risk Assessment Surveys and Meetings – (Dates)
  - Receive Fraud/Scope/Risk Assessment Surveys and Questionnaires
  - Staff Risk Assessment Meetings with Auditor
  - Audit Committee Risk Assessment Meeting with Auditor
3. Release Trial Balance and Requested Information to Auditors – (Date)

# Audit Planning Calendars Can Make Audits Less Stressful

38

4. **Start Field Work** – (Date)
5. **Draft Reports** – (Dates)
  - Receive
  - Share/Distribute
  - Approval
6. **Concluding Audit Committee Meeting with Auditor** – (Date)
  - Auditor Presentation of Audit Reports, Findings and Observations to Audit Committee
  - Audit Committee Recommendation to Board to Accept
7. **Board Approval and Finalization** – (Date)

# Audit Planning Calendars Can Make Audits Less Stressful

39

## Planning Tip

***Consider assembling audit planning calendar for next audit as last and concluding action step of previous year audit***

***Staff and audit committee would have just finished their discussions and assessment of how completed audit went, leaving them with fresh impressions***

## Topic #3

**Leveraging**

**Audit Results**

**“ROI”**

## Leveraging Audit Results – “ROI”

Explain in **Plain Terms** to Users

**Purpose and How to Read**

*(don't assume users completely understand)*

- **Audit Reports**
  1. **Opinion Letter**
  2. **Internal Controls**
    - ***Management Letter***
  3. **Required Communications Letter**
    - ***Charged with Governance***

# Leveraging Audit Results – “ROI”

42

## Financial Statement Audit Reports

- **Audit Reports**
  1. **Opinion Letter**
    - **Unqualified – *Clean Opinion***
    - **Qualified – *Except for Opinion***
    - **Others**

# Leveraging Audit Results – “ROI”

43

## Financial Statement Audit Reports

- Audit Reports

- Internal Controls – *Management Letter*

<https://www.aicpa-cima.com/resources/download/au-c-section-265-communicating-internal-control-related-matters-identified>

- Material Weaknesses
- Significant Deficiencies
- Other Matters

# Leveraging Audit Results – “ROI”

44

## Financial Statement Audit Reports

- Audit Reports
  - Required Communications Letter – *Charged with Governance*

<https://www.aicpa-cima.com/resources/download/au-c-section-260-the-auditors-communication-with-those-charged-with>

- Required communication for all audits

## Leveraging Audit Results – “ROI”

### Financial Statement Audit Reports

#### ➤ Required Communications Letter – Elements

1. **Significant audit findings**
  - **(correcting JE's)**
2. Accounting estimates (like allocation of functional expenses, pledges receivable)
3. Disclosures (like revenue recognition)
4. Difficulties encountered
5. Uncorrected misstatements
6. **Disagreements with management**
7. Management representation letter
8. Consultations with other accountants
9. Other findings or issues

## Leveraging Audit Results – “ROI”

Adding Formal Written Responses  
Audit Management Letter Findings

**Audit findings** are not unusual

Audit findings tend to produce **feelings of negativity** and thoughts that **something is wrong**

Adding thoughtful written management responses will **turn negative feelings into positive and constructive actions**

## Leveraging Audit Results – “ROI”

### Adding Formal Written Responses Audit Management Letter Findings

**Two strategies** providing written management responses

#### 1. Communicate with auditors

- Inform auditors request to provide written management responses to any audit findings during front-end audit planning processes and risk assessment meetings

#### 2. Develop guidelines for written management responses

- Positive
- Negative
- Neutral

## Leveraging Audit Results – “ROI”

### Adding Formal Written Responses Audit Management Letter Findings

#### 2. Develop guidelines for written management responses

- Positive Response:
  - Mediation steps or corrective action plan (CAP) that includes management concurrence with finding and what steps management plans to put in place to satisfy or correct the issue
- Negative Response:
  - Management does not agree with finding or sees no alternative efficient course of action and include an explanation of why no changes are being implemented and reference alternative practices in-place
- Neutral Response:
  - Deferral of action pending special circumstances where organization expects changes that will impact finding but cannot implement actions immediately
    - Neutral response can be appropriate for situations where organization expects to return to normal operations

## Leveraging Audit Results – “ROI”

### Communicate Many Benefits of Audits

- **Key Benefits of Audits:**
  - **Confidence and Trust**
    - Funders, Donors, Sponsors, Service Recipients, Constituents
    - Board, Volunteers, Future Leaders, Staff
    - Vendors, Banks, Insurance, Credit Access
    - Joint Ventures, Fiscal Sponsorships, Partnerships, Business Opportunities
  - **Enhance Access to New Sources of Funding**
  - **Opportunities to Improve Internal Controls and Fraud Prevention**
  - **Help Ensure Meeting Legal and Regulatory Compliance**

### **Our Favorite:**

- **Learn From Auditor Observations and Industry Experiences**

# Conclusion

50

When nonprofit organizations and their audit committees remain engaged and active throughout the year with their audit process

Will show the organization

***Takes Accountability Seriously***

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