



NONPROFIT ALERT

A  West Rhode & Roberts Publication

Educating the Governing Board

Due to the well-publicized corporate accounting scandals and embezzlements that have occurred at some nonprofit organizations, the general public is beginning to hold the governing boards of nonprofit organizations at increasing levels of responsibility. Pressure is being put on board members to not only understand the organizations activities but also their financial matters.


An organization elects board members for various reasons which include expertise in particular areas; fundraising abilities or membership in a particular ethnic group or socioeconomic group served by the organization. Therefore, it is important to educate your board so they have an understanding of a few basic financial matters.

Some board members improperly assume that the outside CPA is responsible for the organization's financial statements. The outside CPA is responsible for the auditor's report and MANAGEMENT is responsible for the financial statements along with establishing and maintaining effective internal controls. It is important to remember that for some organization the outside CPA does not perform an audit, so the level of work done by the outside CPA will vary depending on the engagement performed. Even in an audit the

outside CPA does not test every transaction and it is important to remember that an audit provides only reasonable, not absolute, assurance that the organization's financial statements are free from material misstatements.

In many organizations, the CPA firm is the most trusted financial advisor due to their knowledge of the organization's financial matters. It is important to remember that the outside CPA is governed by independence rules that may prohibit them from performing services or making management decisions that would result in them auditing their own work product. The highly publicized SEC independence rules that are a result of the Sarbanes-Oxley Act do not currently apply to audits of nonprofit companies. Many state boards of accountancy are looking into the independence rules to determine if it would be beneficial to revise the independent rules.

The Board should utilize their outside CPA as a source of information and technical assistance with new auditing and accounting standards to see if they may have an impact on their organization. Outside CPA's can play an important role in board education. When it comes to educating the board it is not a one-time event but a continuous process. There is usually some board turnover on a yearly basis and accounting pronouncements are issued every year. With the outside CPA's knowledge and interaction with the board it usually gives everyone the opportunity to gain a better understanding of management's and the outside CPA's roles within the organization.

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