

# AHLBECK & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## THE TIMES THEY ARE A'CHANGIN...

### AUDIT CHANGES

The Auditing Standards Board recently issued several new and revised standards which affect all audits. These will have a significant effect on how we, as auditors, plan and time our work and how we communicate the results. They will also affect how you prepare for the audit.

The two standards which are effective for this year are Audit Documentation (SAS No. 103) and Communicating Internal Control Related Matters Identified in an Audit (SAS No. 112).

Although SAS No. 103 primarily impacts the auditor's preparation of workpapers, the auditee is also affected. The new requirement changes the date of the auditor's report from "date of completion of fieldwork" to a date no earlier than the date on which the auditor has obtained "sufficient appropriate audit evidence to support the opinion." This includes obtaining the management representation letter and approval of the (preliminary) financial statements as well as receipt of critical confirmations and the attorney's letter. If these items are not conveyed to the auditor promptly, additional audit procedures may be required to ensure that transactions between the fiscal year-end and the report date will not affect the audit opinion. Additional procedures can mean additional fees.

SAS No. 112 requires the auditors to communicate to those charged with governance of the organization any significant internal control deficiencies or material weaknesses identified by applying the standard audit procedures. They will not issue a report on the

internal control system, but if they "trip over" or detect a deficiency or weakness, they are required to follow up. The organization may be able to mitigate the deficiency or weakness through compensating controls or written documentation.

For example, if the auditors note that there are only two full-time employees in the office, that situation might raise questions about whether there is adequate separation of duties. In this circumstance, the auditors will be looking for documentation of internal controls in the form of an office procedures statement, written job descriptions or an accounting manual. They will also be looking for an anti-fraud program.

If the auditors prepare the financial statements, they will question whether anyone else in the organization has sufficient accounting and financial expertise to oversee accounting policies and financial reporting. Whether there are significant deficiencies or material weaknesses will be determined in light of all the facts and circumstances related to the individual organization.

The findings identified by these procedures will be communicated in writing to the board of directors and management. The auditor will also investigate whether previously identified deficiencies and weaknesses have been addressed by management. Any uncorrected deficiencies or weaknesses will be repeated in the subsequent communications. If, over a period of time, management fails to address significant deficiencies, that in itself will be viewed as a deficiency.

## FORM 990 CHANGES

There is a changing climate in the not-for-profit (NFP) industry due to additional scrutiny by the Internal Revenue Service and the general public. Access to all Forms 990, Return of Organization Exempt From Income Tax, filed with the IRS is available on the internet. The IRS has revised Form 990 to gather more extensive information and has increased penalties for incomplete or inaccurate returns filed. In order to avoid scrutiny and costly penalties from the IRS, NFP organizations should be aware of areas of focus and report complete and accurate data accordingly.

First, the organization's website is required to be provided to the IRS on page 1 of Form 990. If no website is reported here, the IRS agent reviewing the form may perform a simple search online to find the organization's website and then match data accordingly.

NFP organizations should carefully review their websites to ensure that all information listed there agrees with that reported on Form 990. Specific areas to review for consistency include the organization's charitable purpose or mission statement, program descriptions, and the reporting of any unrelated business income activities.

The IRS is also digging deeply into compensation practices of NFPs. They are looking for omissions or violations of excess benefit rules in compensation and other benefits of current and former officers, directors, and key employees. Taxable and nontaxable fringe benefits under a nonaccountable plan need to be reported on Form 990. This includes everything from everyday expenses like personal use of cell phones and parking expenses to retirement gifts and spousal travel expenses paid by the organization. Ahlbeck & Company has a compensation

reconciliation form we can provide to assist you in this process.

In addition, the IRS is looking for any related-party transactions in which the NFP took part. Specifically, they are looking to see if related parties participated in the: sale, exchange, or leasing of property; lending of money or other extension of credit; furnishing of goods, services, or facilities; payment of compensation (or payment or reimbursement of expenses if more than \$1,000); or transfer of any part of its income or assets.

Form 990 asks if the organization has a conflict of interest policy. The IRS places an extremely high value on having a conflict of interest policy and it is strongly advised that all organizations adopt a conflict of interest policy so that they can answer this question "yes".

Attention by the IRS is also being given to the following areas: special events revenue, donor-advised funds, and expense items labeled "miscellaneous" or "other" on Form 990.

## ABOUT AHLBECK & COMPANY

We have served the not-for-profit industry for over 40 years and excel at going "beyond the accounting" to assist with issues unique to not-for-profit organizations.

For assistance with any of the items mentioned herein or any other not-for-profit issues, contact a professional at Ahlbeck & Company.

Ahlbeck & Company offers a diverse menu of services. We are more than an accounting firm. We are your business partner, willing to assist in all aspects of your business needs. From governmental filings and tax compliance to operational efficiency, we can meet your needs.

*(as issued on our website [www.ahlbeck.com](http://www.ahlbeck.com))*

Pursuant to Internal Revenue Service Circular No. 230, be advised that the information contained herein was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding any Internal Revenue Code penalties that may be imposed on the taxpayer. It was written with the intent of disseminating general information related to the transaction(s) or matter(s) addressed herein.

**AHLBECK & COMPANY**  
1665 Elk Boulevard • Des Plaines, IL 60016  
Tel: 847/824-4000 • Fax: 847/824-4012  
[www.ahlbeck.com](http://www.ahlbeck.com)

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