

# Checklist: Nonprofit Audit Readiness Checklist

This checklist outlines the essential steps your nonprofit must take to ensure year-round compliance with GAAP and prepare for a smooth, cost-effective independent audit.

## Phase 1: Foundational Accounting (GAAP Compliance)

Audit preparation starts with daily, consistent bookkeeping practices aligned with Generally Accepted Accounting Principles (GAAP).

Area	Compliance Check	Status
Financial Statements	Are the Statement of Financial Position, Statement of Activities, and Statement of Cash Flows generated and balanced consistently?	<input type="checkbox"/>
Chart of Accounts (COA)	Does the COA clearly support functional expense allocation (Program, Mgmt, Fundraising)?	<input type="checkbox"/>
Restricted Funds	Are net assets correctly classified as with or without donor restrictions in the accounting system?	<input type="checkbox"/>
Revenue Recognition	Have all grants and large donations been recognized as revenue according to FASB rules (conditions met)?	<input type="checkbox"/>
Journal Entries	Are all manual journal entries clearly documented, supported by external evidence, and approved by a supervisor?	<input type="checkbox"/>

## Phase 2: Internal Controls Documentation

Auditors heavily test whether your internal controls are documented and followed.

Control Policy	Documentation Status	Status
Segregation of Duties (SOD)	Is the SOD policy written and are incompatible tasks (e.g., recording cash vs. depositing cash) performed by different people?	<input type="checkbox"/>
Cash & Check Handling	Are all incoming checks logged by non-finance staff before being forwarded to accounting?	<input type="checkbox"/>
Approval Process	Are all disbursements (checks/EFTs) reviewed and approved by an authorized signor before payment?	<input type="checkbox"/>
Fixed Asset Inventory	Is there a current log of all fixed assets (equipment, property) and a consistent depreciation policy?	<input type="checkbox"/>
Whistleblower Policy	Is a confidential whistleblower policy in place and communicated to all staff and the Board?	<input type="checkbox"/>

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## Phase 3: Audit Documentation Compilation

This section ensures you have the necessary documentation ready to hand over to the external auditors.

Document Required	Source/Location	Status
Bank Statements & Reconciliations	All monthly bank and credit card statements, reconciled, for the entire audit period.	<input type="checkbox"/>
Board Minutes	Signed copies of all Board meeting minutes for the audit period (especially for approving budgets and financials).	<input type="checkbox"/>
Legal Documents	Current Articles of Incorporation, Bylaws, and IRS Determination Letter.	<input type="checkbox"/>
Grant & Donor Correspondence	Copies of all major grant agreements and letters outlining donor restrictions.	<input type="checkbox"/>
Payroll Records	Detailed payroll registers and documentation of the functional expense allocation method used.	<input type="checkbox"/>

## Phase 4: Internal Controls Documentation

Auditors heavily test whether your internal controls are documented and followed.

Action Item	Details	Status
Engage Auditor	Sign the engagement letter and agree upon the audit timeline well in advance.	<input type="checkbox"/>
Board Review	Ensure the Board of Directors has reviewed and formally approved the preliminary financial statements.	<input type="checkbox"/>
Staff Training	Brief all staff members on the audit process and how to respond to auditor inquiries professionally.	<input type="checkbox"/>
Schedule Interviews	Block time for key staff (ED, Finance Manager) to be available for auditor questions and interviews.	<input type="checkbox"/>

**Remember:** The best time to prepare for an audit is every single day. Consistent compliance saves money and time when the auditors arrive.



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*This checklist is for informational purposes only and does not constitute legal or tax advice. It is crucial to consult with legal and tax professionals to assess specific circumstances and obtain tailored guidance.*