

Audit-Ready Without the Panic

A Nonprofit Audit Checklist and Preparation Guide



Learn how to prepare for a nonprofit audit, avoid common mistakes, and assess your readiness with a simple checklist.

Most nonprofits do not struggle with audits because they lack expertise. They struggle because their systems break down under pressure. Audit readiness is not about scrambling a few weeks before fieldwork.

It is about building processes that work all year.

*If your audit feels stressful, it is not an audit problem.
It is a systems problem.*



What Does “Audit-Ready” Actually Mean?

Being audit-ready means your organization operates with consistency, clarity, and control throughout the year.

You are audit-ready when:

- Your financials are accurate and complete
- Your documentation is organized and accessible
- Your systems are consistent and repeatable
- Your team understands their roles
- You can respond to auditor requests quickly and confidently

Audit readiness is not about perfection.

It is about consistency.

Why Nonprofits Struggle With Audits

Most audit challenges come from a few predictable gaps:

- Financials are not fully cleaned up until year-end
- Documentation is scattered across emails and folders
- Grants are tracked outside the accounting system
- Processes exist but are not consistently followed
- Too much knowledge lives with one person

These gaps create a familiar pattern: last-minute scrambling, delayed audits, and unnecessary stress

What Auditors Are Actually Looking For

Auditors are not trying to make things complicated.

They are asking three simple questions:

Are your numbers accurate?

Do your financial statements reflect reality?

Can you prove it?

Is there documentation behind each number?

Can we rely on your process?

Do you have systems in place that ensure consistency and reduce risk?

If you can confidently answer yes to these questions, your audit becomes significantly smoother.

The **5 Pillars** of Audit Readiness

Strong audits do not happen by accident.

They are the result of systems that are built, followed, and maintained over time.

These five pillars represent the core areas auditors evaluate and where nonprofits most often experience breakdowns.

- 1** CLEAN FINANCIALS
- 2** GRANT & REVENUE CLARITY
- 3** ORGANIZED DOCUMENTATION
- 4** STRONG SYSTEMS & CONTROLS
- 5** PREPARED TEAM & LEADERSHIP

Your numbers are accurate, complete, and ready to stand on their own.

At its core, an audit validates your financial statements.

If your numbers are not clean, everything else becomes more difficult.

Revenue and Expense Cutoff

One of the most common issues identified during audits is improper cutoff.

Cutoff simply means recording revenue and expenses in the correct period.

Under U.S. GAAP, transactions must be recorded in the period in which they are earned or incurred, not when cash is received or paid.

Common cutoff issues include:

- Recording revenue before it is earned
- Delaying expenses to a future period
- Missing expenses that relate to the current year
- Recording activity in the wrong fiscal year

For example:

- An invoice for services performed in June should be recorded in June, even if it is paid in July
- Expenses incurred before year-end must be included, even if the bill has not been received yet

If cutoff is incorrect:

- Financial statements may be misstated
- Audit adjustments may be required
- Trends and reporting may be misleading

Strong cutoff practices include:

- Reviewing transactions around year-end carefully
- Recording accrued expenses and receivables where appropriate
- Ensuring all activity is captured in the correct period before closing the books

Clean financials mean:

- Your books are fully closed and finalized for the year
- All transactions are properly categorized and reviewed
- Your financial reports can be generated directly from your system
- Your current year aligns with prior audited results
- Your balance sheet accounts are fully reconciled and supported

Many nonprofits delay cleanup until audit season.

This creates unnecessary stress and increases the likelihood of adjustments.

Organizations that are audit-ready treat their financials as complete before the audit begins, not during.

You know exactly where your money came from and how it is allowed to be used.

Revenue recognition is one of the most common areas where audits uncover issues.

This is because nonprofit funding often comes with restrictions, conditions, or timing requirements.

Under U.S. GAAP, nonprofit revenue recognition is primarily governed by FASB ASC 958-605 (Not-for-Profit Entities – Revenue Recognition).

This guidance requires organizations to determine whether funding is:

Conditional or Unconditional

- Conditional contributions include a measurable barrier and a right of return or release

These are not recognized as revenue until the condition is met

- Unconditional contributions do not have barriers

These are recognized as revenue when promised or received

For example:

- A grant that requires specific performance or spending is typically conditional
- A general donation with no required action is typically unconditional

Restricted vs. Unrestricted

Also under ASC 958:

- Restricted funds must be used for a specific purpose or time period
- Unrestricted funds can be used at the organization's discretion

Restriction affects how funds are presented, not when they are recognized.

Why This Matters

If revenue is recorded incorrectly:

- Financial statements may be misstated
- Grant reporting may not align
- Audit findings or adjustments may be required

Strong Revenue and Grant Practices Include:

- Maintaining documentation for all major funding sources
- Evaluating whether funding is conditional under ASC 958-605
- Clearly separating restricted and unrestricted funds
- Managing all grant activity within the accounting system

A common mistake is relying on spreadsheets outside the accounting system.

This creates inconsistencies and increases audit risk.

When revenue is handled correctly, financials, grant reports, and internal tracking all align.

You can quickly support and explain every number in your financials.

Auditors do not just review your numbers.

They review the evidence behind those numbers.

Every balance, transaction, and adjustment should have documentation that answers the question:

How do you know this is correct?

Strong documentation practices include:

- Maintaining support for all transactions, including invoices, contracts, and receipts
- Storing documents in one centralized, organized system
- Avoiding reliance on email inboxes or individual desktops
- Ensuring reports and schedules tie directly to financial statements
- Being able to quickly respond to auditor requests

One of the most common mistakes nonprofits make is assuming small transactions do not matter.

In reality, auditors select samples, and you do not control what gets selected.

If a transaction is chosen, you must be able to support it.

This is especially important for organizations receiving federal funding.

Under federal audit requirements, including Uniform Guidance, auditors are often focused on compliance and documentation at the transaction level.

That means:

- Even small expenses may be tested
- Missing receipts can result in findings
- Lack of documentation can require repayment of funds

Best practice is simple:

Keep documentation for everything, including receipts for all expenses.

When documentation is complete and organized, audits move faster, require fewer follow-ups, and create far less stress.

A common mistake is relying on spreadsheets outside the accounting system.

This creates inconsistencies and increases audit risk.

When revenue is handled correctly, financials, grant reports, and internal tracking all align.



Your processes are consistent, documented, and reduce the risk of error.

Internal controls are the systems that ensure your financial processes are reliable.

This is not about adding complexity.

It is about creating structure and accountability.

Effective systems and controls include:

- Documented financial processes that reflect how work is actually done
- Clear separation of responsibilities across team members
- Consistent approval and review procedures
- Regular reconciliation and oversight
- Awareness of gaps and a plan to address them

Auditors are not just testing outcomes.

They are evaluating whether your systems can be trusted.

If your processes are inconsistent or unclear, auditors will dig deeper.

Your organization is aligned, informed, and not dependent on one person.

Audit readiness is not just a finance function.

It requires coordination across leadership and the organization.

Common risks arise when:

- Only one person understands the financial systems
- Roles and responsibilities are unclear
- Key information is not shared across the team

Strong organizations mitigate this by:

- Clearly defining roles and responsibilities
- Ensuring more than one person understands key processes
- Maintaining up-to-date board and governance documentation
- Keeping major contracts, agreements, and decisions accessible
- Identifying unusual or complex activity early

A well-prepared team reduces delays, improves communication, and strengthens confidence during the audit process.

Audit Readiness Checklist

Most organizations are strong in two to three of these areas and have gaps in the rest.

This checklist will help you quickly identify where you stand.

HOW TO USE THIS CHECKLIST

STEP 1

Rate each statement:

1 Not in place

3 In Progress

5 Fully in Place

STEP 2

Tally your score and review chart on the next page.



Clean & Accurate Financials

Do your numbers actually reflect reality?

- Our books are fully closed for the year
- There are no unclear or uncategorized transactions
- We can produce financial reports at any time
- This year ties cleanly to last year
- Our balance sheet accounts are reviewed and supported

Score: ____ / 25

Grants & Revenue Are Tracked Correctly

Can you clearly explain where your money came from and how it should be used?

- All major funding has supporting documentation
- Restricted funds are tracked separately
- Revenue is recorded at the correct time
- Grant balances and pledges are accurate
- We are not relying on spreadsheets outside our system

Score: ____ / 25



Documentation Is Organized & Accessible

Can you prove your numbers quickly and confidently?

- Every transaction has supporting documentation
- Documents are stored in one organized location
- We are not relying on inboxes or desktops
- Reports tie directly to our financials
- We can respond quickly to auditor requests

Score: ____ / 25

Your Team & Organization Are Prepared

Are you ready for the audit without scrambling?

- Roles and responsibilities are clearly defined
- More than one person understands financial processes
- Board and leadership documentation is up to date
- Key contracts and agreements are accessible
- We have identified any unusual or complex activity

Score: ____ / 25

Systems & Controls Are Working

Do your systems prevent mistakes and catch issues early?

- Financial processes are documented and followed
- Responsibilities are clearly separated across the team
- Approvals and reviews happen consistently
- Changes in staff or systems are documented
- We are aware of and addressing any gaps

Score: ____ / 25

YOUR AUDIT READINESS SCORE	
Total Score: ____ / 125	
100-125	You are audit-ready and operating with confidence. Your systems are working for you.
75-99	Some gaps exist. You may get through your audit, but it will require additional effort and stress.
50-74	High risk. Your audit process will likely be reactive and time-consuming.
Below 50	Audit panic zone. Your team is likely relying on last-minute fixes instead of strong systems.

How to Become Audit-Ready Year-Round

Audit readiness is built through consistent habits, not last-minute preparation.

Focus on these five actions:

Close your books monthly
Accurate, timely financials are the foundation of everything else.

Centralize your documentation
Store everything in one consistent, organized location.

Track Grants in Your System
Avoid separate spreadsheets that create confusion and risk.

Document your processes
Ensure your systems can be followed and repeated.

Build redundancy across your team
Reduce reliance on any single individual.



Common Audit Mistakes to Avoid

- Waiting until audit season to prepare
- Cleaning up financials after the fact
- Storing documentation in multiple locations
- Misunderstanding restricted or conditional funding
- Relying on one person for key financial processes

If your score reveals gaps in your financials, documentation, or systems, you are not alone.

We work with nonprofit leaders to build the structure and clarity needed so audits feel predictable, not stressful.

Schedule a strategy session

Frequently Asked Questions

What do auditors look for in a nonprofit audit?

Auditors focus on accuracy, documentation, and consistency. They want to ensure your financial statements are correct, supported, and based on reliable processes.

How do you prepare for a nonprofit audit?

Preparation involves maintaining clean financials, organizing documentation, tracking grants correctly, and following consistent processes throughout the year.

What is the biggest reason nonprofits struggle with audits?

The most common issue is inconsistent systems, especially around documentation, financial close, and grant tracking.

How long does audit preparation take?

Organizations with strong systems prepare continuously throughout the year. Others may spend several weeks catching up before the audit begins.

Do all nonprofits need an audit?

Not all nonprofits are required to have an audit. Requirements depend on state regulations, funding sources, and organizational size.

