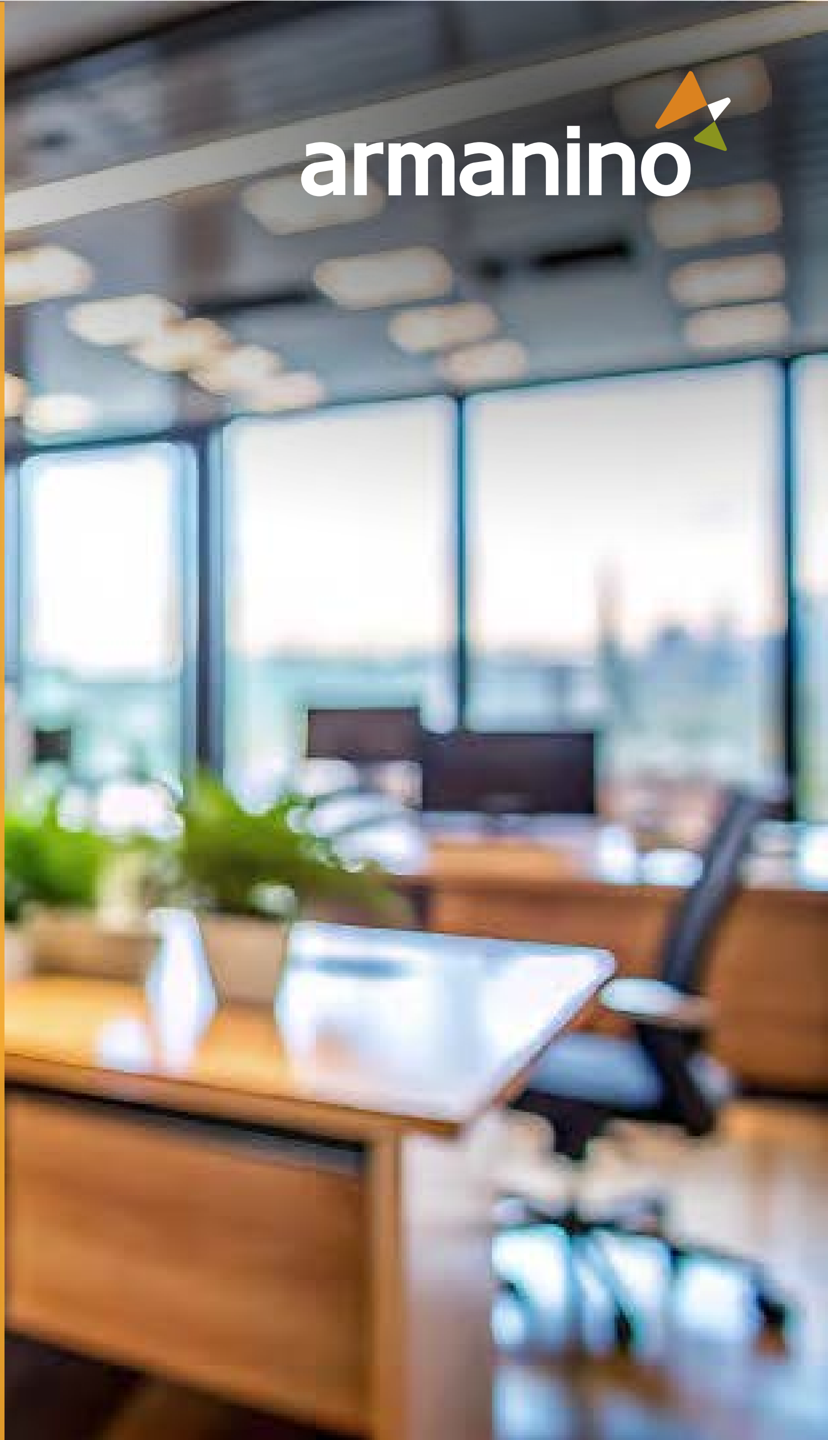
The Nonprofit Audit: Readiness, Risk and the Role of AI



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Learning Objectives

After this course, you will be able to:

Identify key audit season readiness priorities for nonprofit organizations, including documentation, reconciliations, estimates, grants, contributions and restricted funds.

Recognize common audit challenges and warning signs that can lead to delays, deficiencies or additional scrutiny during audit procedures.

Demonstrate how AI and automation are beginning to impact the audit process, including potential benefits, limitations and considerations for nonprofit finance teams.

Evaluate practical ways AI can support audit preparation, including prompts and agent use cases that streamline data gathering, improve documentation and reduce manual effort.

Detect responsible next steps to prepare for a smoother audit season and more informed conversations with auditors, boards and stakeholders.

EXPLORING NEW AREAS

Agenda

1. Audit Readiness in Real Time: What to Do Now & What to Carry Forward
2. Nonprofit Audit Priorities to Review Before Year-End
3. Common Audit Challenges and Red Flags
4. How AI and Automation Are Shaping The Audit Process
5. Practical AI Prompts and Agent Examples
6. Next Steps For a Smoother Audit
7. Q&A

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THE FUTURE READY NONPROFIT AUDIT

Audit Readiness in Real Time: What to Do Now and What to Carry Forward

Interim Work Completed	Preparing for final fieldwork	Already in Final Fieldwork
Review interim findings or follow-up requests	Finalize priority PBC schedules	Categorize auditor requests by urgency and dependence
Confirm open items were assigned	Review key reconciliations before submission	Track open items daily
Update reconciliations through year-end	Tie grant, development, and GL reports together	Avoid sending incomplete support just to “check the box”
Identify new grants, contributions, estimates, or unusual transactions since interim work	Prepare explanations for significant fluctuations	Document conclusions as questions are resolved
	Confirm who will respond to auditor follow-up questions	Capture pain points for post-audit improvement

THE FUTURE READY NONPROFIT AUDIT

Nonprofit Audit Priorities to Review Before Year End

Six Areas to Address Before Year-End

1 Reconciliations

Cash, investments, receivables, payables, debt, pledges, grants, and intercompany activity.

2 Documentation

Board minutes, contracts, grant agreements, donor letters, estimates, allocations, and approvals.

3 Revenue streams

Contributions, conditional grants, exchange transactions, sponsorships, program revenue, and special events.

4 Restrictions and releases

Net assets with donor restrictions, releases from restriction, endowment activity, and purpose/time restrictions.

5 Estimates and judgments

Allowance estimates, fair value, useful lives, collectability, contingencies, and allocation methodologies.

6 Compliance

Federal/state grants, Uniform Guidance, donor restrictions, debt covenants, regulatory filings, and internal policies.

Areas to Address Before Year-End: Examples

1 Example 1

A development team records a large restricted contribution for a new program, but the donor letter is vague. The finance team should clarify the restriction early, document whether it is purpose-restricted, time-restricted, conditional, or unconditional, and ensure the release from restriction will be supported when funds are spent.

2 Example 2

For larger nonprofits, restricted net asset tracking can become difficult when donor restrictions, grant restrictions, board designations, program departments, and multiple entities all use different tracking methods. A mid-year tie-out between the development system, grant records, and general ledger can prevent significant year-end rework.

Common Audit Challenges and Red Flags

Common Audit Challenges

The warning signs are rarely mysterious. They usually show up as unresolved questions:

1. Why does this report not tie to the general ledger?
2. Who approved this allocation?
3. Is this grant conditional?
4. Why did we release these funds from restriction?
5. Why is this reconciling item still sitting here six months later?

The earlier you surface those questions, the more options you have. If those questions come up during fieldwork, the team is responding under pressure and with less time to involve the right people.

THE FUTURE READY NONPROFIT AUDIT

How AI and Automation Are Shaping The Audit Process

Using AI: Do's and Don'ts

✓ AI can help nonprofit finance teams:

- ✓ Summarize long agreements, board minutes, and policies.
- ✓ Draft first-pass explanations for fluctuations or unusual activity.
- ✓ Compare PBC requests to available documentation.
- ✓ Organize support into audit-ready categories.
- ✓ Identify missing fields, inconsistencies, or unusual trends.
- ✓ Create draft documentation for management review.

✕ AI should not be used to:

- ✕ Make final accounting conclusions without review.
- ✕ Replace management's understanding of transactions.
- ✕ Upload sensitive data into unapproved tools.
- ✕ Create support that cannot be traced back to source documents.
- ✕ Override auditor requests or professional judgment.

Using AI: Do's and Don'ts - Continued

1 **Example**

A finance director uploads an approved grant agreement into an approved internal AI tool and asks it to summarize key terms: award amount, period of performance, allowable costs, reporting deadlines, matching requirements, and potential restrictions. The summary is then reviewed by the finance director and grant manager in conjunction with applicable authoritative accounting guidance before being added to the audit-ready grant file.

** **Reminder**

Nonprofit organizations need a formal AI use policy for finance and accounting activities, including approved tools, data classification rules, review requirements, documentation expectations, and committee reporting. The more complex the organization, the more important governance becomes.

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Practical AI Prompts And Agent Examples

Practical AI Prompts and Agent Examples

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DISCLAIMER

Use these only in approved tools and with appropriate data protections. **Do not upload confidential donor, employee, client, or grant information into unapproved public AI tools.** Treat AI outputs as drafts that require review. All prompts are for example purposes only and should be tailored for effectiveness and security to your individual situation.

* AI may generate incorrect citations, facts, calculations, or conclusions that appear authoritative. Validate outputs against source documents.

THE FUTURE READY NONPROFIT AUDIT

Prompting Frameworks

01 CRIT

CONTEXT

ROLE

INTERVIEW

TASK

02 CLEAR

CONTEXT

LOGIC

EXAMPLES

ARRANGEMENT

REINFORCEMENT

03 PRIME

PURPOSE

REQUIREMENTS

INSTRUCTIONS

METRICS

EXAMPLES

Think like the Auditor - #1

THE PROMPT

Act as a nonprofit audit readiness assistant. Review the following prepared-by-client request list and organize the items into categories: Internal controls, planning, cash, investments, receivables, contributions, grants, expenses, payroll, functional allocations, debt, leases, board governance, and compliance. (Utilize my emails, internal documents, team meetings, prepared by and modified details of accounting records.) For each item, identify the likely owner, source system, expected support, and whether the request appears complete or may need clarification. Do not invent missing information. Flag anything that requires management review.

How to use it

Helpful for a small finance team that receives a long audit request list and needs to quickly assign ownership.

Complexity callout

For larger organizations, add fields for entity, program, region, grant ID, and due date.

Think like the Auditor - #2

THE PROMPT

Act as an internal consultant with significant public accounting experience advising me, your CFO client. I have provided our prior year audited financial statements, our most recent policies and procedures document, and our most current trial balance. Please review our website and, where applicable, financial information for similar organizations (*bonus – direct the prompt to comparable organizations or include available peer financial statements.*) Based on the following facts about our organization and review of the documents above, identify areas of elevated audit risk, likely audit procedures, and documentation we should prepare in advance. (Describe key activity during the year).

How to use it

Use during audit planning to identify likely audit focus areas before fieldwork begins

Complexity callout

Most effective when multiple years of financial and operational data is provided.

Quality of results can improve significantly when peer organization data are included

Think like the Auditor - #3

THE PROMPT

Prompt #1: Act as an internal consultant with significant public accounting experience advising me, your CFO client. Review the attached board/executive/finance/investment/audit committee minutes and identify items auditors may inquire about, such as changes in management, new policies, debt agreements, significant contracts, endowment actions, related-party transactions, conflicts of interest, reserve designations, and changes in governance. List these items by relevant audit area summarized, numeric bullets.

Prompt #2: I have selected certain items of relevance from your response above, indicated as [Cash #1, Related Party #5, etc.]. For each item, draft a summary of the following: 1) key document or PBCs expected to be requested by the auditors, 2) relevant accounting guidance specific to these topics, 3) accounting impacts to numbers or disclosures to consider in the draft financial statements.

How to use it

Upload minutes
Use Prompt 1 to identify audit-relevant items
Use Prompt 2 to translate key topics into expected requests
Review results with Finance teams before planning meeting

Complexity callout

Most effective when minutes cover full fiscal year and include committee materials
Results improve when agreements, contracts etc are included in minutes

PRACTICAL AI PROMPTS

Think like the Auditor - #4

THE PROMPT

You are a nonprofit consultant specializing in the understanding of donor agreements with a deep understanding of donor law, including UPMIFA, and expertise in the relevant US GAAP accounting guidance for contributions. I have included a reconciliation of our donor database, and copies of agreements for all gifts over a certain threshold. I have also included copies of gifts that the accounting team has determined to be conditional. Analyze the following donor correspondence and determine whether the contribution appears unrestricted, purpose restricted, time restricted, conditional, exchange-based, or potentially endowment-related. Explain the rationale and identify any questions management should resolve.

How to use it

Use to validate restricted classification and accounting treatment before year end reporting.
Identify gifts requiring additional legal, accounting or donor clarification.
Document conclusions and resolve prior to audit.

Complexity callout

Most effective when complete donor agreements and supporting correspondence for material gifts are available.

Management should always validate conclusions against guidance such as ASC 958, UPMIFA, and legal interpretations of donor intent

Think like the Auditor - #5

THE PROMPT

You are a nonprofit accounting specialist reviewing the most recent functional expense statement and supporting schedules. I have uploaded the functional expense schedules for the past 3 years, along with our memo documentation supporting our allocations. Foot and cross the schedules, and review for any formulaic inconsistencies or errors in calculations. Summarize these, with reference to the relevant cells, bulleted under the heading "formulaic errors and inconsistencies". Review our functional expense statements, considering the organization's activity noted in my prior board minute review prompt and audit risk review prompts, and identify areas where auditors may question assumptions, documentation, or support for allocations. Flag areas where allocations were significantly inconsistent across periods, or for which the allocations are not reasonable in consideration of the broader activity of the organization.

Bonus prompt #2: You are a donor utilizing my financial statements to decide how you may give to the organization. Review our functional expense footnote, and recommend changes that would better describe our functional expense methodology, both to clarify accounting accuracy and to emphasize our programmatic story consistent with Note 1.

How to use it

Use to validate calculations, challenge allocation assumptions, identify YoY inconsistencies. Compare allocation practices against organizational activities, governance discussions, and financial trends. Use donor-focused prompt to improve transparency

Complexity callout

Most valuable when multiple years of schedules, allocation memos, and planning documents are available. Management should validate all suggestion allocation changes for consistency with ASC 958 and consistency with organizational operations and controls.

Financial Statement Pre-Review Prompt

THE PROMPT

You are the CFO of a nonprofit organization preparing for an upcoming audit. Review the draft financial statements and/or trial balance and identify items management should evaluate before providing them to the auditors. Focus on inconsistencies between the statements, footnotes, and supporting schedules; missing or unclear nonprofit disclosures; unusual balances or year-over-year changes; net asset classification matters; and areas requiring management judgment or additional support. Provide observations, questions, and recommended follow-up items. Do not conclude that the financial statements are correct.

Bonus prompt – provide financial statements of similar nonprofits and the prior year financial statements and current year trial balance. Request the agent to review the peer financial statements, compare to your trial balance, and summarize potential disclosure gaps, presentation differences, unusual classification decisions, and questions management should consider.

How to use it

Use as pre-audit quality review
Resolve unidentified questions before submitting to audit team
Benchmark to peer reports, when available

Complexity callout

Most valuable when financial statements, trial balance, and supporting workpapers are provided together.

Results significantly improve when PY statements and comparable peer financials are included.

Draft Fluctuation Analysis

THE PROMPT

Act as a nonprofit accounting manager. Draft a preliminary fluctuation analysis for the attached trial balance comparing current year to prior year. Focus on material changes in revenue, payroll, program expenses, grant expenses, occupancy, professional fees, and contributions. For each fluctuation, provide a plain-English explanation based only on the data provided, list possible follow-up questions, and identify supporting documents that management should gather before providing the analysis to auditors.

How to use it

Helps a resource-constrained team get started on explanations before fieldwork.

Important reminder

The team should verify every explanation against actual operating activity. AI may identify patterns, but management must determine whether the explanation is accurate.

Estimate Documentation Builder

THE PROMPT

Act as a nonprofit audit documentation assistant. Help me draft a management memo documenting (describe estimate). I have included our calculation of the estimate; please review and ask me up to five questions to clarify the nature, methodology, and nuances of the estimate calculation. Draft a memo and include the purpose of the estimate, data used, methodology, key assumptions, review controls, sensitivity considerations, and supporting schedules. Do not make accounting conclusions beyond the facts provided. Identify any missing information needed before the memo can be finalized.

How to use it

Helpful for allowance estimates, useful lives, fair value inputs, conditional grant assessments, collectability, and allocation methodologies.

Complexity callout

For larger nonprofits, this can support consistency across multiple accounting estimates and departments.

SEFA Analysis and Rollforward

THE PROMPT

You are the CFO/controller of a nonprofit organization preparing for a Single Audit. I have included our SEFA with supporting transactional detail tabs, as well as the SEFAs for the past five years. I have also uploaded copies of our key grant agreements and amendments. Review the draft SEFA, grant agreements, award notices, prior-year SEFA, current-year general ledger detail, grant revenue and expense reports, cash draw records, and supporting reconciliation schedules.

Prepare an audit-readiness review of the SEFA. Specifically:
• Compare each grant agreement or award notice to the SEFA and identify missing programs, incorrect program names, Assistance Listing numbers, pass-through entity names, award numbers, or cluster presentation issues.
• Tie current-year SEFA expenditures to the supporting general ledger detail and identify reconciling items, unsupported amounts, manual reclassifications, or expenditures coded outside the expected grant accounts.

Roll forward prior-year cumulative expenditures, add current-year expenditures, and compare total expenditures to the approved grant award amount and period of performance.
• Identify expenditures that may fall outside the approved period of performance, exceed award limits, duplicate prior-year reporting, or appear inconsistent with the grant terms.
• Review the SEFA for completeness by considering prior-year federal programs, new awards, pass-through funding, subrecipient activity, noncash assistance, loans, program income, matching requirements, and clusters.
• Identify amounts provided to subrecipients and confirm whether they are separately tracked and properly disclosed.
• Prepare a list of auditor-style questions, missing support, proposed corrections, and items management should resolve before providing the SEFA to the audit team.

Do not assume the SEFA is complete or accurate. Do not make unsupported corrections. Clearly distinguish between confirmed errors, potential issues, and questions requiring management follow-up

How to use it

Good for teams managing multiple grants with limited time to extract key audit and compliance terms.

Complexity callout

For larger nonprofits, use this as part of a standardized grant intake workflow involving finance, program, and compliance review.

Fixed Assets and Depreciation Prompt

THE PROMPT

You are the CFO of a nonprofit organization preparing for an upcoming audit. Review this depreciation schedule and related fixed asset roll forward which I have uploaded. Identify any footing or cross-footing errors and agree the depreciation schedule and fixed asset roll forwards together. Review the individual asset descriptions, and flag any assets that have unreasonable useful lives, or inconsistency in the useful lives across asset classes. Flag unusual trends in assets that may indicate an adjustment is needed (such as very old assets with NBV remaining on the books where it appears newer assets have been procured, asset activity inconsistent with the minutes reviewed in my previous prompt, assets related to terminated federal programs, assets related to closed campuses, etc.). Flag inconsistencies or concerns and summarize in bulleted format by type for my review. Please state the specific cell location for each error identified in an excel, and the pdf page number for issues noted in a pdf.

How to use it

Use to validate mathematical accuracy, useful lives, and asset activity

Compare asset activity to organizational activity

Investigate unusual trends before fieldwork, such as aging assets, dormant projects, new construction

Complexity callout

Most effective when depreciation schedules, fixed asset schedules, detailed board minutes etc. are available. Management should validate all flagged items against capitalization policies, grant requirements, and documented useful life assumptions.

Think like the Auditor – The Finale

THE PROMPT

Act as the partner in charge of my audit. Based on my prior prompts and results, tell me what is most likely to cause audit delays, audit adjustments, compliance findings, management comments or other surprises. Group your responses in summarized, bulleted format in the following heads: 1) audit readiness, 2) grant or donor gift compliance, 3) technical accounting issues, 4) financial statement presentation issues, and 5) audit committee communications and advisement.

REMEMBER – garbage in, garbage out. The more data that you provide and the more refined your prompts are, the better your responses will be

How to use it

Use after completing the other audit-readiness prompts
Ask the agent to consolidate findings and priorities
Review the results with the finance team
Focus first on high-risk items most likely to result in adjustments, findings or delays

Complexity callout

Quality and output depends heavily on the completeness and accuracy of information provided. The more information provided, the better.

Don't be afraid to converse with this prompt – ask questions, dig deeper.

Budget Prompt – (Bonus prompt)

THE PROMPT

Act as an experienced nonprofit CFO, FP&A leader, and board finance committee advisor. Review our proposed budget, the prior 3–5 years of budgets and actual results, board and finance committee minutes, strategic plans, and available peer organization data. Where available, utilize context from my emails and other documents within our system's sharepoint.

Identify:
• Budget assumptions that differ significantly from historical trends
• Revenue and expense areas that appear overly optimistic or conservative
• Initiatives discussed by leadership that are not reflected in the budget
• Significant variances from peer organizations
• Opportunities to improve operating efficiency, staffing models, procurement practices, technology utilization, and vendor spending
• Contracts or expense categories that may offer renegotiation or consolidation opportunities
• Operational, financial, or mission-related risks not adequately addressed

Provide the top 10 observations, top 10 opportunities, key board discussion topics, and three innovative ideas leadership should consider before approving the budget.

Bonus Prompt #2: Assume the organization faces a 10% reduction in annual revenue next year. Without reducing mission impact, identify the ten highest-value actions management could take to improve financial sustainability, reduce operating risk, and strengthen long-term resilience.

How to use it

Use to challenge assumptions, identify blind spots, validate alignment with organizational strategy.
Review operational efficiencies, cost structure trends, and opportunities
Discuss highest-impact observations with leadership

Complexity callout

Most effective when multiple years of budget to actual data available.

Valuable when utilized after minutes prompt also,.

Converse! Finalize with a prompt to summarize key observations

THE FUTURE READY NONPROFIT AUDIT

Next Steps For A Smoother Audit

AUDIT READINESS

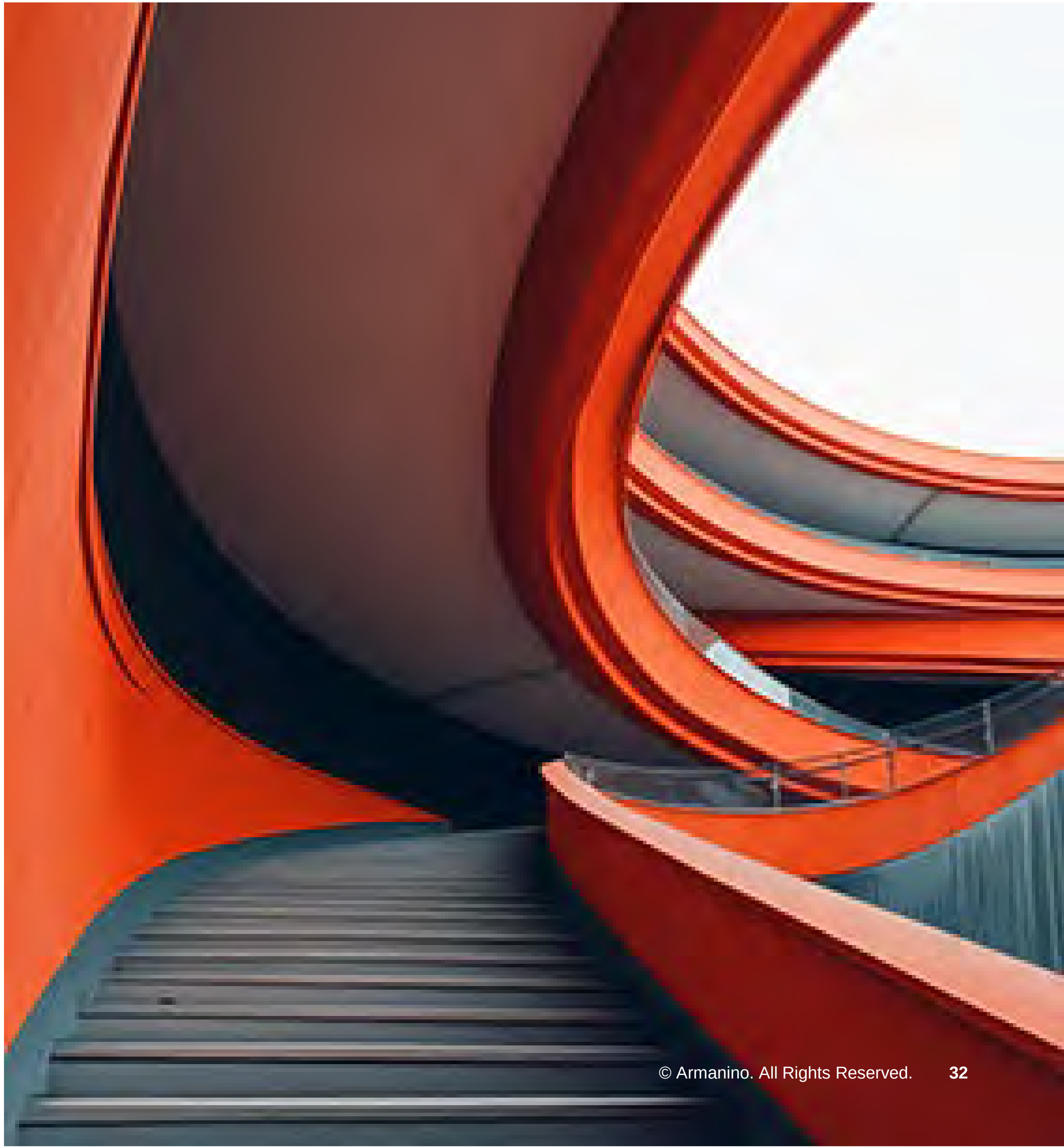
A 30-Day Audit Readiness Action Plan

1. Create or refresh the audit readiness calendar.
2. Assign owners to major PBC categories.
3. Update key reconciliations and resolve old reconciling items.
4. Inventory new grants, contracts, and significant contributions.
5. Review restricted net asset activity and releases.
6. Identify estimates and judgments that need documentation.
7. Schedule a pre-audit planning conversation with auditors.
8. Decide where AI can safely support organization, summarization, and first drafts.
9. Establish a review process for any AI-assisted documentation.

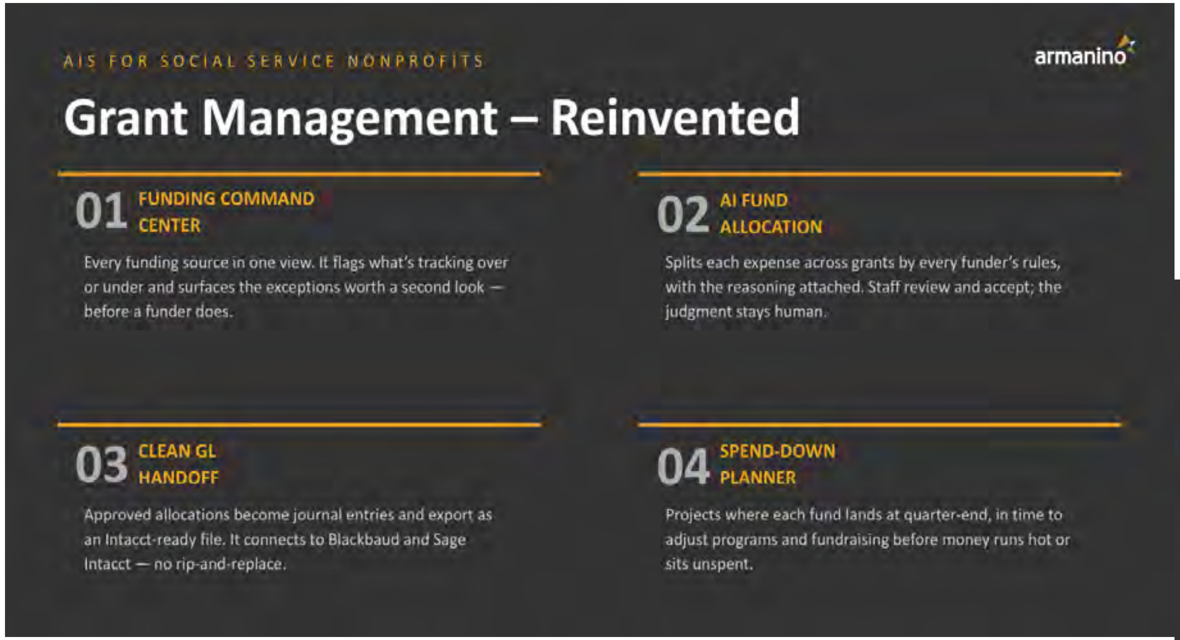
If there is one takeaway from today, it is this:

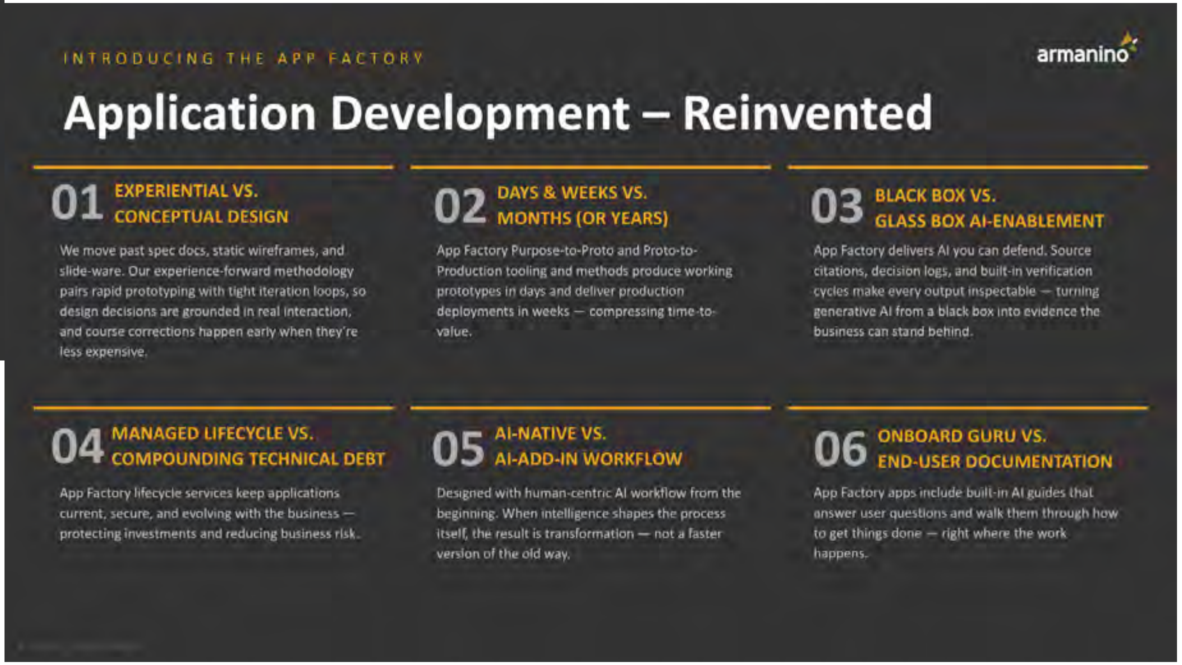
Audit readiness is not about perfection. It is about visibility, ownership, and preparation. For nonprofit finance teams that are already doing a lot with limited resources, small improvements made earlier in the year can have a meaningful impact on audit timing, stress, and quality.

AI can be a part of that process, helping teams organize, summarize, draft, and analyze, but it works best when paired with strong controls, clear documentation, and human judgment.



AIS For Nonprofit – Social Services Orgs





Thank you for attending

Additional questions?

Reach out to us at experts@armanino.com

Armanino Operates in an Alternative Practice Structure:

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