

SEO DETAILS:

Page Title: Nonprofits Can Use Internal Audits to Mitigate Risk | [INSERT RELATED SERVICE]
| [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] explains why internal audits are critical for nonprofits, and how they can identify fraud risks.

Headline: How Nonprofits Can Use Internal Audits to Mitigate Risk

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Whether it's to comply with state laws or provide contributors with financial statements, internal audits are critical for nonprofit organizations to verify the accuracy of their records, prevent the misuse of funds or assets and even identify strategies for improving operations.

Internal audits help nonprofit organizations remain accountable to both their donors and to tax authorities. They have a fiduciary duty to demonstrate to their contributors that funds are used for their intended purpose. And because of the tax benefits they receive, organizations also must follow state and federal tax regulations as part of their nonprofit status. The misuse of funds can result in damage to a nonprofit's reputation—and a loss of donor support—and put the organization's tax-exempt status at risk.

Through an internal audit, a nonprofit is able to:

- assess whether proper internal controls are in place to restrict access to sensitive information;
- put appropriate physical security measures in place, such as locking away checks safely;
- set up and maintain internal checks and balances so that an employee does not oversee multiple tasks that could create a conflict of interest, such as depositing donor checks and managing payroll;
- keep all staff aware of who has the authority to approve the nonprofit's purchases;
- carefully document invoices and receipts from transactions with vendors; and
- conduct periodic reviews of outside vendor performance.

Internal audits can identify potential risks of fraud or insufficient funding as early as possible. These audits help a nonprofit understand any operational vulnerabilities it might have, verify compliance with appropriate laws and prioritize which issues need the most immediate attention.

Internal audits help identify not just organizational vulnerabilities, but also strategies for improving the nonprofit's operations. An internal audit can uncover unnecessary, duplicative procedures and provide recommendations for getting more value out of its fundraising and core mission.

An effective internal audit will include thorough documentation and follow-up with management to track how and when issues are resolved. To maintain internal auditor independence, the auditor should report either to a special committee separate from management or directly to the nonprofit's board of directors.

According to the Association of Certified Fraud Examiners report on global fraud, 9 percent of organizations victimized are in the nonprofit sector, with the median fraud loss estimated at

\$75,000, and causes such as corruption, expensive reimbursement errors, financial statement fraud and billing schemes. Reputational damage could compound this financial damage. If a nonprofit were to lose its tax-exempt status, it could owe taxes in future years, as well as back taxes and penalties. Conducting a careful internal audits can reduce these risks and improve a nonprofit organization's core functions.

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