

PREFACE

This *Guide* tells how to audit a nonprofit organization. It combines a discussion of authoritative requirements and specifically tailored practice aids to help the auditor audit effectively and efficiently in accordance with professional standards. The *Guide* applies to voluntary health and welfare organizations and to other nonprofit organizations that follow the AICPA Audit and Accounting Guide, *Not-for-Profit Entities*. Thus, it covers a wide range of organizations—health and community services agencies; cultural, research, and educational institutions; social, business, and professional associations; religious and political organizations; etc.

These types of organizations engage in a diverse range of activities, but they generally share certain characteristics unique to nonprofit organizations. These characteristics may result in a nonprofit organization needing more extensive accounting and control policies and procedures than would be typical for a small private business. Yet, as is usually the case for small entities, there generally are constraints on the resources available for accounting and control activities. Nonprofit organizations may face additional constraints due to the often limited or uncertain nature of funding.

A key consideration of this *Guide* is the use of an audit approach that is predicated on the identification and assessment of risks of material misstatement and the development of further audit procedures that are responsive to those assessed risks. This approach allows the auditor to concentrate audit effort on those areas in the financial statement where there is a higher risk of material misstatement and, accordingly, limit procedures in areas of lower risk.

This *Guide* also provides auditors of nonprofit organizations with a practical audit approach and tools based on the risk characteristics and responses that are typical for such companies.

Because of audit requirements of funding sources, particularly the Single Audit, special attention usually must be directed to tests of controls and compliance with laws and regulations relevant to governmental assistance programs, often involving the use of audit sampling. Also, there is often more transactions testing because of the use of complex coding and classification systems to identify costs by object, program, budget category, etc., and to classify contributions by donor restrictions. The audit approach, programs, and other practice aids in this *Guide* recognize these needs and are organized so that auditors of nonprofit organizations not subject to a Single Audit need not be concerned with the additional audit procedures.

In view of the host of auditing, quality control, and governmental requirements, *PPC's Guide to Audits of Nonprofit Organizations* is crucial to an effective and efficient audit.

Relevant Standards and Interpretive Guidance Addressed by the *Guide*

Auditing Standards and Interpretive Guidance

The *Guide* addresses relevant auditing standards and interpretive guidance issued and effective by the Auditing Standards Board (ASB) of the AICPA through January 31, 2024.

Although not fully effective at the time of publication, the following auditing standard was issued before January 31, 2024, and is fully incorporated into the *Guide*, with the extant guidance replaced:

- SAS No. 147, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance with Laws and Regulations*, is effective for audits of financial statements for periods beginning on or after June 30, 2023, and does not prohibit early implementation.

The following auditing standards were issued before January 31, 2024, are not yet effective at the time of publication, and are not fully incorporated into the *Guide*:

- SAS No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, is effective for engagements conducted in accordance with U.S. GAAS for

periods beginning on or after December 15, 2025. The *Guide* provides an overview of SAS No. 146; however, the requirements of this standard have not been incorporated into this edition of the *Guide*. It is expected to be fully incorporated into a future edition of the *Guide*. SAS No. 146 does not prohibit early implementation.

- SAS No. 149, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*, is effective for audits of group financial statements for periods ending on or after December 15, 2026. The *Guide* provides an overview of SAS No. 149; however, the requirements of this standard have not been incorporated into this edition of the *Guide*. It is expected to be fully incorporated into a future edition of the *Guide*. SAS No. 149 does not prohibit early implementation.

The *Guide* also addresses the AICPA Audit and Accounting Guide, *Not-for-Profit Entities*, as of March 1, 2023.

The *Guide* addresses the following standards, regulations, and interpretive guidance related to Yellow Book and Single Audits issued through January 31, 2024:

- *Government Auditing Standards, 2018 Revision Technical Update April 2021*.
- Single Audit Act Amendments of 1996.
- *OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) [2 CFR part 200 of the Electronic Code of Federal Regulations (eCFR)].
- 2023 OMB Compliance Supplement.
- AICPA Audit Guide, *Government Auditing Standards and Single Audits*, as of April 1, 2023.

Compilation and Review Standards and Interpretive Guidance

The *Guide* addresses relevant compilation and review standards and interpretive guidance issued and effective by the Accounting and Review Services Committee (ARSC) of the AICPA through January 31, 2024.

The following compilation and review standard was issued before January 31, 2024, is not fully effective at the time of publication, and is not fully incorporated into the *Guide*:

- SSARS No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*, is effective for engagements performed in accordance with SSARSS for periods beginning on or after December 15, 2025, other than the amendment to AR-C 90.16, which was effective upon issuance. The amendment to AR-C 90.16 is fully incorporated into the *Guide*. The *Guide* provides an overview of the other provisions of SSARS No. 26; however, the other requirements have not been incorporated into this edition of the *Guide*. It is expected to be fully incorporated into a future edition of the *Guide*. SSARS No. 26 does not prohibit early implementation.

The *Guide* also addresses the AICPA Guide, *Preparation, Compilation, and Review Engagements*, as of September 1, 2023.

Accounting Standards

The primary focus of the *Guide* is on engagement standards rather than accounting standards; however, it does provide relevant industry accounting guidance. In addition, accounting standards with disclosure requirements are included in the Disclosure Checklist (NPO-CX-13).

The *Guide* addresses relevant accounting standards issued and effective by the Financial Accounting Standards Board (FASB) through January 31, 2024, and up to FASB Accounting Standards Update (ASU) No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*.

Although not fully effective at the time of publication, the following relevant accounting standards were issued before January 31, 2023, and dual guidance is provided:

- ASU No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, is effective for fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted for financial statements that have not been made available for issuance.
- ASU No. 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, is effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Early adoption is permitted for financial statements that have not been made available for issuance.
- ASU No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, is effective for fiscal years beginning after December 15, 2024, including interim periods within those years. Early adoption is permitted for financial statements that have not been made available for issuance.
- ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, is effective for fiscal years beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not been made available for issuance.

Policy for Updating the QCM Content

Thomson Reuters updates *PPC's Guide to Audits of Nonprofit Organizations* annually and generally releases a new edition each spring to reflect changes in standards and interpretive guidance, content enhancements, and the corrections of minor errors not previously updated. The *Guide* referenced herein was completed on January 31, 2024, and no changes have been made to this specific edition of the *Guide* since then.