

## How Internal Audit Can Add Value in the Not-for-Profit World

While not-for-profit organizations perform many of the same accounting functions as public corporations, not-for-profits are inherently different in many ways and require a unique audit focus. In 2006, the *American Society of Association Executives (ASAE)* published the results of a research project undertaken by *The Center for Association Leadership* to identify characteristics of the most successful not-for-profit organizations. The study found the following factors to be common in the most successful associations: Commitment to Purpose, Commitment to Analysis and Feedback, and Commitment to Action.

By focusing on the conclusions of this study, auditors can go beyond assurance and provide insight that will help to identify and mitigate risk. An entity level assessment should ask questions to identify the risks associated with each factor listed above.

### Commitment to Purpose

A successful organization aligns its products and services with a customer focused mission. Its reason for being is measured by its relevance to the customers and/or members. Questions for auditors to ask include:

- Are strategies aligned with the interests of the customer and/or member before the generation of revenue or the promotion of an image?
- How can upcoming changes in the external environment affect the commitment to the mission? Are underlying values constant?
- Does the association periodically and clearly define the customer? Does it best serve the customers and/or membership directly or through chapter organizations? Are the needs of special interest groups being prioritized effectively?

### Commitment to Analysis and Feedback

Communication and data-driven strategies are vital to the success of a not-for-profit organization. The organization should be the ultimate authority concerning the needs and issues of its customers and/or members as well as the state of the business environment. To evaluate the risk associated with poor analysis and feedback, the following questions will be helpful:

- Are initiatives and strategic goals supported by data and research?
- How is information shared throughout the organization? Are all levels of employees actively involved?
- Are computer systems and models appropriate and sufficient?

### Commitment to Action

A successful organization is flexible and adapts quickly to crisis situations. For not-for-profits, these situations typically involve a financial setback or a leadership void. Leading not-for-profit organizations also actively pursue alliance opportunities that will leverage services for the membership. The following questions assess the organization's commitment to continuous improvement and adaptability:

- Does the organization have an action plan that will support quick decision-making in the event of a crisis?
- Are there "sacred cow" programs or services that cannot be changed?
- How does the organization identify and evaluate potential alliances?

Audit has a responsibility to monitor risks particular to the not-for-profit environment. By using the 2006 study as a guideline, a partnership between audit and organization leadership can help foster success and better results for the membership community.

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