NONPROFIT FINANCE

The nonprofit audit-readiness checklist

40 checks across the five controls auditors and funders actually ask about.

Built for finance teams of two or three.

For nonprofit finance leaders, controllers, and board treasurers in the US and Canada.

ApprovalMax

US & CANADA EDITION

HOW TO USE THIS

Start here

Each of the five sections has the same shape.

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01 **The checks.** Mark only what is true today, not what is written in a policy somewhere. A control that exists on paper and gets stepped around in practice is an unmarked box.

02 **If you are a team of two or three.** Every section has one, because most of the advice written about internal controls quietly assumes a finance department. Separation of duties is about the sequence of a transaction, not the size of your payroll.

03 **What good evidence looks like.** The version an auditor or a funder can actually see. This is usually where organizations discover the gap. The control was happening. Nobody can prove it.

At the end there is a scoring page and a short list of the fixes worth doing first.

A note on both countries

This checklist works for US and Canadian organizations. The only thing that differs is the name of your annual public return, Form 990 in the US and the T3010 in Canada, and when it is due. Filing deadlines follow your own fiscal year end, so the crunch is never one shared date. Everything else here applies equally.

Why this list is short

The five controls here are the ones that come up repeatedly when things go wrong: who can move money without a second person, what the thresholds are, whether restricted money is checked at the point of spend, whether the decision was recorded when it happened, and whether the board sees anything real.

Get those right and the rest is housekeeping.

Most control failures are not theft. They are concentration. One capable, trusted person ends up owning too much of the spend process, because that is what the resource allows, and everyone hopes the annual audit catches anything that slipped.

The audit is not designed to catch it. It is designed to test whether your controls would have.

1 Separation of duties

Why it matters. Almost every serious control failure traces back to one person being able to complete a payment alone. This is the control that funders ask about first and the one small teams assume they cannot have.

THE CHECKS

- [ ] No single person can add a new supplier or payee and also approve a payment to them
- [ ] The person who enters a bill is not the person who releases the payment
- [ ] A change to an existing supplier's bank details is verified by someone other than whoever made the change
- [ ] Payroll changes are approved by someone outside the payroll process
- [ ] Expense claims are approved by someone other than the claimant, including for the executive director
- [ ] Journal entries above a set value are reviewed by a second person
- [ ] Whoever holds system administrator rights cannot approve their own changes to the approval process
- [ ] Every approval is attached to a named individual, not a shared login

If you are a team of two or three

Two people is enough for this. The question is not how many pairs of hands you have, it is whether the same pair does both jobs.

So one of you enters the bill and the other one releases the payment. That is the entire control. You will be tempted to skip it when one of you is on leave or a supplier is chasing, and those are exactly the situations it exists to cover.

If you are a team of one, your second person comes from outside finance. A treasurer, a board member, or your external accountant can approve anything over a figure you set, and that figure can be low. Plenty of small organizations set it at a few hundred dollars and find it costs them almost no time.

One warning, because this is where small teams usually go wrong. A second approver who signs off everything without reading it is worse than having no second approver, because it looks like a control to you and reads like a rubber stamp to an auditor.

What good evidence looks like

An auditor picks a payment and can see, without asking you, who requested it and who authorised it, and that those are two different named people.

Shared logins break this instantly. If two people use the same account, you have no separation of duties, whatever your process says.

2 Approval thresholds and delegated authority

Why it matters. Thresholds are how you avoid approving everything and controlling nothing. Most nonprofit policies set them once, at a budget size the organization has since outgrown.

THE CHECKS

- [ ] A written delegation of authority exists, with value bands
- [ ] The board has approved it and the approval is minuted
- [ ] The bands reflect your current budget, and were reviewed within the last twelve months
- [ ] Every band names an approver and a deputy for leave and turnover
- [ ] Spend that is not in the approved budget has a distinct route, not just a higher number
- [ ] New commitments above a set value need approval before the commitment, not at invoice
- [ ] An emergency override route is defined, and every use of it is logged and reviewed afterwards
- [ ] Actual transactions match the policy, checked by sampling rather than assumed

If you are a team of two or three

Two bands is enough. Pick one amount. Below it, either of you can approve. Above it, it goes to your treasurer.

The hard part is choosing the amount, and there is a practical way to do it. Look back at last year's payments and find the figure that leaves your treasurer with a handful of approvals a month rather than a hundred. Small organizations tend to land somewhere between five hundred and five thousand dollars depending on their size.

Set it too high and the control almost never fires. Set it too low and your treasurer stops reading what they approve.

What good evidence looks like

The policy is dated, the board minute approving it is findable, and a sample of ten real transactions from the last quarter all sit inside it. Including the awkward one.

3 Restricted funds and grant conditions

Why it matters. This is the risk that has no equivalent in the commercial sector. Money given for one purpose cannot be spent on another, and "did we have the cash" is not the question. "Were we allowed to spend it on this" is.

THE CHECKS

- [ ] Every restricted fund has a named owner
- [ ] Fund or class coding is applied when the spend is approved, not corrected at month end
- [ ] The approver can see the remaining balance in that fund before approving against it
- [ ] Grant conditions (eligible cost categories, the spending period, reporting dates) are recorded somewhere the approver can actually reach
- [ ] Your method for allocating shared costs and administrative recovery is written down and applied consistently
- [ ] Spend against each restricted fund is reviewed before the funder report is drafted
- [ ] Someone checks for spend that falls outside a grant's eligible period, in both directions
- [ ] Where a cost is split across funds, the basis for the split is recorded on the transaction

If you are a team of two or three

One document, maintained properly, does most of this. Each grant, its conditions, its period, its balance, its owner.

The discipline that matters is checking it at the point of approval rather than at month end. Recoding restricted spend after the fact is the single most common source of the awkward audit conversation, because from the outside it is indistinguishable from having spent the money wrongly and then fixed the record.

What good evidence looks like

A transaction shows the fund, the approver, the date, and enough context to see that the condition was checked at the time. Not a spreadsheet built afterwards that reconciles to the right answer.

4 The audit trail

Why it matters. Every organization believes it has one. The test is not whether the information exists somewhere. It is whether you can produce it without a search.

THE CHECKS

- [ ] Every payment traces to a request, an approval, and a supporting document
- [ ] Approvals are timestamped and captured at the moment they happen
- [ ] Approvals do not live in personal email or chat threads
- [ ] A change to an amount or a payee after approval triggers a fresh approval
- [ ] The trail survives staff turnover, because it is not in one person's inbox
- [ ] Deleted and voided transactions leave a record of who did it and why
- [ ] You could produce the full history of any transaction from nine months ago in under five minutes
- [ ] The trail is available to whoever needs it without going through one individual

If you are a team of two or three

The standard does not change with team size, because this is about where the record lives, not how many people made it.

The advantage a small team has here is real, though. Fewer people means fewer places for the trail to fragment, provided you decide on one place and use it.

What good evidence looks like

You hand over the history without narrating it. If a payment needs explaining, the trail is not doing its job.

TRY THIS BEFORE YOU MARK SECTION 4

The three-payment test

Pick three payments at random from nine months ago. Give yourself five minutes each to produce the five things below.

- The request
- The approval
- The approver's name
- The date
- The supporting document

Most organizations fail this on at least one of the three, and almost always for the same reason. The approval happened in an email thread belonging to somebody who has since changed roles.

5 Board and committee oversight

Why it matters. Oversight is the control auditors probe hardest, because it is the one most often satisfied on paper. A quarterly summary pack is information. It is not oversight.

THE CHECKS

- [ ] The treasurer or finance committee sees transaction-level detail for significant items, not only summaries
- [ ] The board approves the delegation of authority and any change to it, minuted
- [ ] A conflict of interest policy exists and declarations are checked against actual transactions
- [ ] Related party transactions are identified and approved by someone outside the relationship
- [ ] Bank reconciliations are reviewed by someone independent of whoever prepared them
- [ ] The board or a committee reviews the annual public return before it is filed
- [ ] There is a route for a staff member to raise a financial concern that does not go through their line manager
- [ ] Board members with financial authority are given something specific to approve, not asked to note

If you are a team of two or three

This is where a small organization can outperform a large one, and most do not realise it.

A treasurer who reviews a pack once a quarter is working from a snapshot. A treasurer who is an active approver above a threshold, from their phone, at the moment it matters, is exercising genuine oversight and attending no extra meetings at all. It also solves your separation of duties problem in the same move.

What good evidence looks like

Minutes that reference specific decisions and specific figures, and a treasurer whose name appears on real transactions.

SCORING

What your answers mean

Count the boxes you could not honestly mark.

0 to 5 UNMARKED	You are in good shape. Work through the gaps and pay particular attention to any that sit in section 4, because an unprovable control is treated as an absent one.
6 to 15 UNMARKED	Normal, and worth acting on. Look at where the gaps cluster. Concentrated in one section, you have a specific fix. Spread evenly, the issue is usually that controls depend on people remembering rather than on the process enforcing them.
16 or more UNMARKED	Your controls are running on trust and the competence of one or two individuals. That may have worked for years and it will keep working until it does not. Start with separation of duties on payments, then thresholds.

WHERE TO START IF YOU ONLY DO ONE THING

Make it impossible for one person to complete a payment alone.

Everything else on this list is easier once that is true, and no other single change moves your audit position as far.

Before filing season

Both countries put a version of your finances on public record. Form 990 in the US, the T3010 in Canada. Neither is only a tax exercise, and both ask about governance and oversight rather than financial totals alone.

Your deadline follows your own fiscal year end, so there is no shared date to work back from. What is shared is where the answers come from.

RECORDED AS IT HAPPENED

A team that has recorded approvals as they happened produces the return from evidence that already exists.

RECONSTRUCTED AFTERWARDS

A team that has not spends weeks reconstructing who said yes to what, at the point in the year when it has least capacity to do it.

That is the whole case for working through a list like this in a quiet month rather than a busy one.

ABOUT THE PUBLISHER

Where ApprovalMax fits

Reading back through your unmarked boxes, you will notice how many of them are not really policy problems. They are enforcement problems. The rule exists. Nothing makes it fire on the transaction in front of you.

ApprovalMax sits on top of QuickBooks Online and Xero and closes that gap. Bills and expenses route to the right approver by amount, by fund, or by program. Nothing reaches payment without the authorisation your policy requires, and every decision is captured with a name and a timestamp as it happens.

For a small team the useful part is that separation of duties stops depending on who is available. The workflow will not let the same person enter and release, in a team of two as much as a team of twenty. Your treasurer can approve from their phone without a meeting.

And the three-payment test stops being a test. It becomes a search.

WORKS WITH INTUIT quickbooks xero

This checklist is general guidance, not professional advice on your organization's specific obligations. Requirements differ between jurisdictions and by organization type, so check your position with your auditor or professional adviser.