

## Audit Committee

Pursuant to the passage of the Sarbanes-Oxley Act (SOX) in the summer of 2002, **publicly traded companies** now must ensure their external auditors' independence through, among other things, the use of an audit committee.

But what about not-for-profit organizations? Although smaller not-for-profits may not have an annual audit requirement, larger organizations that do should be thinking about establishing an audit committee that is separate from other financial committees (e.g. – finance or investment). Best practices would suggest that an independent audit committee would be a significant component of a nonprofit board's fiduciary oversight. Often times this is difficult to achieve, as financial savvy may be challenging for nonprofit boards as they struggle to recruit a well-balanced and diverse board. There may be a limited number of financial experts on the board, making it difficult to fill the treasurer's position, a finance committee and an audit committee. Still, audit committee members need to have the financial competency to understand financial statements, evaluate audit firm bids, and make sound financial decisions. Due to their lack of independence, an organization's chief executive officer, executive director or chief financial officer may **not** be audit committee members.

Some organizations are satisfying the audit committee member requirements by filling the positions with some volunteer independent financial experts who are **not** board members. This can be a successful alternative as long as the uncompensated committee: (1) has at least one member meeting the criteria of financial expert; (2) can ensure that the auditing firm has the requisite skills and experience to successfully perform the auditing function; and (3) meets with the auditor, reviews the annual audit, and recommends its approval or modification to the full board. The full board should also review the annual audit and the audit committee's report and recommendations

An "Audit Committee Toolkit" can be downloaded from the AICPA's website: [www.aicpa.org](http://www.aicpa.org) . Click on "Professional Resources", then "Audit Committee Effectiveness Center"; click on "Toolkit: Not-for-Profit." You can either download some of the tools in a *Word* format or a zipped file of all the following tools:

1. Audit Committee Charter Matrix
2. Financial Expertise
3. Sample RFP for CPA Services
4. Independence and Related Issues
5. Peer Review of CPA Firms
6. Fraud and Audit Committee
7. Hiring the Chief Audit Executive
8. Internal Controls
9. Evaluation of the Auditor's Engagement Letter
10. Tracking Report (Whistleblower Policy)\
11. Conducting an Executive Session
12. Issues Report from Management
13. Discussion with Independent Auditors
14. Evaluating Independent Auditors
15. Evaluating Internal Audit Team
16. Audit Committee Self-Evaluation
17. Single Audit Act Issues
18. Resources for Audit Committees
19. Unique Transactions and Financial Relationships