Not-for-Profit Section



Audit Committee Toolkit for Not-for-Profit Entities

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Preface

Not-for-profit entities can benefit greatly from the oversight and expertise an effective audit committee provides in the following areas:

- Financial practices and reporting
- Anti-fraud programs
- Internal audit function
- Financial statement audit
- Credibility with stakeholders

This toolkit is designed for use by the following:

- All not-for-profit entities, regardless of size
- Not-for-profit board and audit committee members, including non-CPAs
- Not-for-profit CEOs, CFOs, chief audit executives, and other key staff positions

It has been organized into the following sections:

- Audit Committee Basics
- Audit Committee Structure
- Audit Committee Administration
- Financial Reporting Oversight
- Internal Audit Function and Financial Statement Audit Oversight
- Risk Oversight
- Ethics and Compliance Oversight
- Appendix: Additional Resources for Audit Committees

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Chapter 1: Audit Committee Basics

Why do not-for-profits need audit committees?

Success for not-for-profits (NFPs), regardless of their type or size, is built on a firm foundation of fiscal accountability and governance. Achieving these oftentimes elusive goals requires more than traditional business know-how and insights into industry and sector trends. It calls for a robust combination of strong internal controls, budgetary and legal compliance, accurate and timely financial reporting and disclosure, sound business practices, and a culture of uncompromised moral and ethical behavior. NFPs can access expertise in all these areas - and in the process more successfully fulfill their strategic goals - by leveraging the knowledge and experience of audit committees.

An effective audit committee can provide the following benefits:

Provide actionable insights to oversee and improve financial practices and reporting. In high-performing organizations, audit committees provide oversight over organizational controls, risk management, and financial reporting and they meet with the CEO and financial leaders to review and maintain the effectiveness of these areas. They often work in partnership with the finance committee, which is typically focused on internal reports, operational issues and financial strategy. For more tips on committee structure and considerations for delineation of audit and finance committee roles, view this AICPA background paper: How to Structure a Not-for-Profit's Board: Basic Considerations.

Create and maintain effective anti-fraud programs. With their insights and expertise in financial, legal, management and operational issues, audit committee members can play a proactive role working with an NFP's leadership team and auditors in creating and periodically reviewing an organization-wide fraud prevention and detection program and ensuring that investigations are undertaken if fraud is uncovered. They can also encourage the organization's leadership team to establish a comprehensive ethics and compliance program. The audit committee should play a similarly proactive role in the review and update of both of these programs. Often, the audit committee receives whistleblower complaints as well. Therefore, it is important for the organization to have a whistleblower policy in place that, among other things, indicates how complaints will be heard, evaluated, and handled. See chapter 7 for additional discussion and an example.

Enhance the internal audit function. For organizations that have an in-house internal audit team or outsource internal audit services or projects, a structure that has internal audit professionals reporting directly to the audit committee contributes to the overall integrity of the internal audit function. Under this structure, the internal audit team can serve as the audit committee's "eyes and ears" regarding the organization's ability to meet its financial and

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compliance responsibilities and ensure that the organization adjusts practices and internal controls as needed.

Oversee the organization's financial statement audit. An audit committee meets with independent auditors to monitor their services and activities to ensure that independence is maintained between the independent auditor and the organization's management team. An audit committee also meets with independent auditors to discuss their independent observations on management's ability to maintain strong internal controls, appropriate financial reporting and sound business practices.

Strengthen credibility with stakeholders. An NFP's reputation is its greatest asset. An audit committee communicates a message of independence, reliability and trust. It also builds confidence among present and potential constituents, donors, creditors, and other stakeholders. NFPs and their audit committees can maintain and further build on this positive message by disclosing the audit committee's role and composition, achieving transparency in financial disclosures, and communicating the organization's compliance and ethics policy.

Audit committees generally consist of a minimum of three independent directors, at least one of whom is a "financial expert." Other key qualifications may include risk management expertise, and broad business or leadership experience. In addition, members of the audit committee shall be free of any relationship that, in the opinion of the board, would interfere with their individual exercise of independent judgment.

What are the basic responsibilities of an audit committee?

Broadly speaking, the audit committee is responsible for oversight of financial reporting, auditing, risk management, and ethics and compliance. That is, an entity's board of directors appoints the audit committee to, among other things,

- oversee the accounting and financial reporting process and the audit of the entity's financial statements by an independent auditor, and
- monitor compliance with the entity's ethics and compliance program, risk management plan, conflict of interest policy, and whistleblower policy adopted by the board.

Accordingly, the audit committee plays a critical oversight role in the system of internal control over financial reporting and compliance and the processes in place to design, implement, and monitor the entity's broader system of internal control. Audit committee members should understand how management is carrying out its internal and external reporting responsibilities and verify that timely corrective actions are taken, as necessary.

Specific responsibilities assigned to an audit committee are set forth in an audit committee charter that is approved by the board of directors (see chapter 3 for a sample). Audit committee responsibilities can vary by not-for-profit entity due to factors such as the size of the entity, the type of not-for-profit, and the complexity of the entity's business model.

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Following the subsequent chapter on committee administration, the remainder of this toolkit is organized around the audit committee's core responsibilities.

What does an audit committee NOT do?

It is not the responsibility of the audit committee to plan or conduct routine audits or to be the primary determinant that the entity's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These tasks are the responsibility of management and the independent auditor, and the audit committee has an oversight responsibility to see that the objectives of financial reporting and auditing are achieved.

What is the difference between the audit committee and the finance committee? [1]

First, it is important to note that certain states have legal requirements designed to ensure the independence of an audit committee that may prohibit or limit the potential crossover in membership and functions of the audit committee and the finance committee. Generally speaking, the finance committee monitors financial transactions and the audit committee makes sure things are done according to policy and with adequate controls. Also, the finance committee provides guidance about what can be done; the audit committee ensures that independent oversight occurs. Therefore, duties are typically assigned as shown in the following table.

Reference Chart: Audit Committee vs. Finance Committee Duties

Audit Committee	Finance Committee
Reviews the financial statements of the entity and other official financial information provided to the public.	Oversees the preparation of the annual budget and financial statements. The finance committee ensures that budgets and interim financial statements are prepared, reviewed, and approved.
Has oversight for ensuring that reports are received, monitored and disseminated appropriately.	Oversees the administration, collection, and disbursement of the financial resources of the entity as well as the policies and procedures related to the financial resources.
Provides oversight of the entity's systems of internal controls, including overseeing	Advises the board with respect to making significant financial decisions.

[1] Originally published as *What's The Difference? Audit Committee vs Finance Committee*, this paper has been adapted and edited with permission from the Nonprofit Risk Management Center at www.nonprofitrisk.org.

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Audit Committee	Finance Committee
compliance by management with applicable policies and procedures and risk management (for example, for organizations that are part of a national network, annually reviewing whether the entity meets the re-chartering requirements of its national organization).	
Oversees the annual financial statement audit process, including the recommended engagement of the independent auditor and receiving of all reports and management letters from the independent certified public accountants.	
Reviews the annual information returns, (IRS Form 990 series, related schedules, and forms; state filings) and recommends for approval, signature, and submission by the appropriate officer. The audit committee also transmits the returns to the board for its review prior to signing and submission. The audit committee engages (on the board's behalf) and interacts with the independent auditor or auditing firm. Many audit firms also prepare the federal and state tax returns for their not-for-profit audit clients.	Oversees the preparation and implementation of the governance policies referenced in IRS Form 990: conflict of interest, document retention, whistle-blower, review of executive compensation, endowments, investments, and so on.
Reviews the entity's procedures for reporting problems. The audit committee may exercise primary responsibility to review the whistle-blower policy and process, anti-fraud policies, and policy and procedures related to the discovery of errors or illegal acts, whistle-blower hotline, and other communication methods and determine the process for "special investigations" (whistle-blower allegations, anti-fraud compliance, discovery of errors or illegal acts).	Should ensure that joint membership between the audit committee and the finance committee is appropriate and meets laws and regulations.

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Audit Committee	Finance Committee
The audit committee shall have such other authority and perform such other duties as may be delegated to it by the board.	

Some joint membership between the audit and finance committees may exist. Entities should refer to state or other local government laws and regulations to ensure compliance.

Certain states may have legal requirements or other regulations that require that certain members of the audit committee are not also members of the finance committee (some states require that the chair of the finance committee not be a member of the audit committee). The purpose is to promote independence within the entity.

Each entity will need to consider these roles and responsibilities, as well as the structure of its organization, and may need to reassign responsibilities, as needed.

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Chapter 1 Appendix

Primer: Internal Control

In 1992, the Committee of Sponsoring Organizations (COSO)[1] of the National Commission on Fraudulent Financial Reporting, also known as the Treadway Commission, published a document called *Internal Control—Integrated Framework* (framework)[2]. The COSO framework has become widely used by U.S. companies, both public and private, and not-for-profit entities. It provides a comprehensive, principles-based approach to understanding internal control, and it has been updated and re-published to reflect consideration of the dramatic changes in business and operating environments since its original release.

The COSO framework defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance."

It sets forth three categories of objectives:

1. Operations objectives pertain to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.
2. Reporting objectives pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, standard setters, or the entity's policies.
3. Compliance objectives pertain to adherence to laws and regulations to which the entity is subject.

The COSO framework states that internal control consists of five integrated components as follows:

1. **Control environment.** The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct. The control environment comprises the integrity and ethical values of the organization and establishes the parameters by which authority and responsibility are assigned.

[1] The Committee of Sponsoring Organizations consists of the American Institute of CPAs (AICPA), the Institute of Management Accountants (IMA), the Institute of Internal Auditors (IIA), Financial Executives International (FEI), and the American Accounting Association (AAA).

[2] The 2013 Internal Control – Integrated Framework is available for purchase via coso.org and aicpastore.com.

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2. **Risk assessment.** Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may impede the ability to achieve its objectives.

3. **Control activities.** Control activities are the actions established by policies and procedures to help ensure that management directives to mitigate risks related to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes, and throughout the technology environment. Control activities can be preventive or detective in nature and may encompass a range of manual and automated activities.

4. **Information and communication.** Information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. Communications occur both internally and externally and provide the organization with the information needed to carry out day-to-day controls. Communication enables personnel to understand internal control responsibilities and their importance to the achievement of objectives.

5. **Monitoring Activities.** Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management and to the board.

The five components of internal control, along with seventeen principles representing the fundamental concepts associated with the components, are linked together, forming an integrated system that can react dynamically to changing conditions.

Internal Control Effectiveness

An effective system of internal controls provides the board of directors and management with reasonable assurance of the following:

- **Operations**—External events are considered unlikely to have a significant impact on the achievement of objectives or the organization can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level; and, when external events may have a significant impact on the achievement of objectives and the impact cannot be mitigated to an acceptable level, operations are managed efficiently and effectively.

- **Reporting**—The organization prepares reports in conformity with applicable laws, rules, regulations, and standards, or with the entity's specified objectives and related policies.

- **Compliance**—The organization complies with applicable laws, rules, and regulations.

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What Internal Control Cannot Do

As important as an internal control structure is to an organization, an effective system is not a guarantee that the organization will be successful. An effective internal control structure will keep the right people informed about the organization's progress (or lack of progress) in achieving its objectives, but it cannot turn a poor manager into a good one. Internal control cannot ensure success, or even survival.

Internal control does not provide absolute assurance to management and the board that the organization has achieved or will achieve its objectives. It can only provide reasonable assurance, due to limitations inherent in all internal control systems. For example, breakdowns in the internal control structure can occur due to simple error, mistake, or faulty judgment that could be made at any level.

In addition, controls can be circumvented by collusion or by management override. Therefore, the audit committee should evaluate whether oversight mechanisms are in place and functioning to prevent, deter, or detect management override of internal controls.

Roles and Responsibilities

Everyone in the organization has some role to play in the organization's internal control system.

Board of Directors and Audit Committee

The **board of directors** is responsible for overseeing the system of internal control and plays a key role in setting expectations about integrity and ethical values, transparency, and accountability for performing internal control responsibilities. Board members should be objective, capable, and inquisitive, with a willingness to commit the time necessary to fulfill their governance responsibilities. This is particularly important when the organization is controlled by an executive or management team with tight reins over the organization and the people within the organization.

The **audit committee** plays a critical oversight role in the reliability of the financial statements, the system of internal control over financial reporting and compliance and the processes in place to design, implement, and monitor the entity's broader system of internal control. Audit committee members should understand how management is carrying out its internal and external reporting responsibilities and verify that timely corrective actions are taken, as necessary.

Senior Management

The **CEO, President, or Executive Director** has ultimate responsibility and ownership of the internal control system, with accountability to the board of directors. This individual sets the tone at the top that affects the integrity and ethics and other factors that create the positive control environment needed for the internal control system to thrive. The CEO maintains visibility and control over the risks facing the entity, and reviews deficiencies that impact the system of

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internal control. The day-to-day design and operation of the control system is delegated to other senior managers in the entity, under the leadership of the CEO.

Much of the internal control structure flows through the accounting and finance area of the organization under the leadership of the **CFO (or similar position)**. In particular, controls over financial reporting fall within the domain of the chief financial officer. The audit committee should use interactions with the CFO as one of several important factors in the basis for their comfort level on the completeness, accuracy, validity, and maintenance of the system of internal control over financial reporting.

In a not-for-profit entity, executive and senior management should, among other things, set the appropriate "tone at the top" for the entity's control environment by doing the following:

- Ensuring that executives and management at all levels of the entity understand their role in cultivating the proper level of control awareness and play an integral part in establishing and maintaining internal controls
- Mandating accountability through properly established policies and procedures and monitoring compliance on an ongoing basis
- Designing internal controls so that risks are managed effectively and material weaknesses are identified and reported to the appropriate level of management in a timely manner
- Requiring disclosure to the entity's auditors and the audit committee of (*a*) all significant deficiencies in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data, as well as any material weaknesses in internal control; and (*b*) any fraud, whether or not material, that involves management or other employees who have a significant role in the entity's internal controls

Business-Enabling Functions

Certain functions exist to support the organization through specialized skills such as finance, risk management, information technology, and human resources. These functions also monitor trends, provide guidance, and keep the organization informed of relevant requirements as important internal controls. Coordination and sharing of issues among these functions help the organization achieve its objectives.

Much of the basics of the control system come under the domain of the **CFO or controller (or similar position)**. It is key that the CFO or controller understands the need for the internal control system, is committed to the system, and communicates the importance of the system to all people in the accounting organization. Further, the CFO or controller should demonstrate respect for the system through his or her actions.

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Internal Audit

A main role for the **internal audit** team is to evaluate the effectiveness of the internal control system and contribute to its ongoing effectiveness. With the internal audit team reporting directly to the audit committee of the board of directors and the most senior levels of management, this team often plays a significant role in monitoring the effectiveness of the internal control system. In small- to medium-sized organizations, the internal audit function may not be staffed internally; instead it may be outsourced to consultants or CPA firms.

External Parties

Third parties frequently play key roles in an entity's activities through outsourcing or other support. The entity retains full responsibility for the internal control system, including activities performed by third parties on its behalf. Therefore, the audit committee should ensure that management has processes to evaluate the effectiveness of any third party's system of internal control.

The **independent auditor** is engaged to audit the reliability of financial reporting and, in certain reporting jurisdictions, the effectiveness of internal control over financial reporting and compliance. In carrying out these responsibilities, the independent auditor will communicate deficiencies in internal control to management to be acted upon and, depending on significance, to the audit committee.

All Other Personnel

The internal control system is only as effective as the employees throughout the organization who must comply with it. Employees throughout the organization should understand their roles in internal control and the importance of supporting the system through their own actions, including encouraging respect for the system by their colleagues throughout the organization.

Internal Control Over Financial Reporting

Key Terms in Internal Control Over Financial Reporting

The following are a few terms you will hear frequently when discussing internal control:

Entity-level controls. These are controls that permeate all levels of the organization, the controls that establish the "tone at the top." Examples include the following:

- Controls related to the control environment
- Controls over management override
- The entity's risk assessment process
- Centralized processing and controls, including shared service environments
- Controls to monitor results of operations

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- Controls to monitor other areas, including activities of the internal audit function, the audit committee, and self-assessment programs
- Controls over the period-end financial reporting process
- Policies that address significant business control and risk management practices

Compensating controls. A primary means of addressing potential concerns about limited segregation of duties, compensating controls include the following:

- Managers reviewing system reports of detailed transactions
- Selecting transactions for review of supporting documents
- Overseeing periodic counts of physical inventory, equipment, or other assets and comparing them with accounting records
- Reviewing reconciliations of account balances or performing them independently

The lack of segregation of duties is not automatically a material weakness, or even a significant deficiency, depending on the compensating controls that are in place.

Control Deficiency. The design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

> *Example:* A member of the accounting department has been assigned responsibility to perform reconciliations on all bank accounts on a monthly basis. This person also has responsibility for opening the mail and preparing the daily deposit to the bank. The person's manager is required to review each reconciliation when completed, but the manager does not sign off consistently on the reconciliation indicating review. Two internal control deficiencies exist here: (1) the lack of segregation of duties because one individual is preparing the cash deposit and reconciling the cash accounts, and (2) the lack of documentation of a control because the manager does not evidence review so it is not clear that the review has been performed.

Significant Deficiency. A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the entity's financial reporting. Alone or with other deficiencies, this type of control deficiency results in more than a remote likelihood that a misstatement of the financials that is more than inconsequential in amount will not be prevented or detected.

> *Example:* The organization is funded by a variety of grant agreements and contracts, making it necessary for the accounting department to review each grant agreement and contract to ensure proper revenue recognition. Because each grant agreement and

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contract is not always reviewed, revenue has been misstated on occasion. It is unlikely that any single grant agreement or contract could result in a material misstatement of revenue, and there are controls in place to ensure that material misstatements do not occur. However, a misstatement that is more than inconsequential yet less than material could result, creating a significant deficiency in internal control.

Material Weakness. A deficiency, or a combination of deficiencies, in internal control over financial re-porting, such that there is a reasonable possibility that a material misstatement of the entity's annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

Examples of weaknesses that likely would be considered material depending on the circumstances include the following:

- Ineffective oversight by the audit committee over the financial reporting process, and the internal controls over financial reporting
- Material misstatements in the financial statements not identified initially by the entity's internal controls
- Significant deficiencies that have been communicated to management and the audit committee but that remain uncorrected after a reasonable period of time
- Restatement of previously issued financial statements to correct a material misstatement
- For larger, more complex entities, ineffective internal audit functions
- For complex entities in highly regulated industries (for example, healthcare), ineffective regulatory compliance function
- Fraud of any magnitude on the part of senior management
- An ineffective control environment

The severity of a deficiency depends on two factors: (1) whether there is a reasonable possibility that the entity's controls will fail to prevent or detect a misstatement of an account balance or disclosure, and (2) the magnitude of the potential misstatement resulting from the deficiency or deficiencies. It is important to state that the severity of a deficiency does not depend on whether a misstatement actually occurred but rather on whether there is a reasonable possibility that the entity's controls will fail to prevent or detect a misstatement. In determining whether a deficiency rises to the level of resulting in a misstatement of an account balance, risk factors need to be considered. These risk factors include, but are not limited to the following:

- The nature of the financial statement accounts, disclosures, and assertions involved
- The susceptibility of the related assets or liability to loss or fraud

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- The subjectivity, complexity, or extent of judgment required to determine the amount involved
- The interaction or relationship of the control with other controls, including whether they are interdependent or redundant
- The interaction of the deficiencies
- The possible future consequences of the deficiency (for example, reduced grant or government funding)

The audit committee needs to be advised and updated regularly on the independent auditor's consideration of internal control as part of the financial statement audit and should have a clear understanding of the expected outcome. In the event the auditor identifies internal control deficiencies, management should develop a plan to correct the weakness(es), and the audit committee should be engaged in the review and approval of that plan.

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Checklist: COSO Internal Control Essentials for the Board

The audit committee's role within an entity's internal control system focuses on internal controls over financial reporting and the processes in place to design, implement, and monitor the entity's broader system of internal control. The audit committee is also responsible for assisting the board in its oversight of internal controls, risk management, and overall governance process. This can be achieved through the committee's interaction with senior management, independent auditors, internal auditors, and other key members of the financial management team.

The following tool is organized by the board-level responsibilities within each of the five components of internal control previously discussed. Each section contains a series of questions that the audit committee should evaluate to assure itself that board-level controls are in place and functioning.

The audit committee should discuss these questions, asking for detailed answers and examples, in an open forum with the individuals who have a basis for responding to them.

This board-level tool should be used in conjunction with the COSO *Internal Control—Integrated Framework* (2013)[3] to determine if all components and related principles of an entity's internal control system are present, functioning, and operating together in an integrated manner.

Evaluation of the internal control structure is not a one-time event, but rather a continuous process for the audit committee—the audit committee should always have its eyes and ears open to the ever-changing risks that the business faces, especially the risks to reliable financial reporting, and should continually probe the responsible parties regarding the operation of the system and potential weaknesses in internal control. These questions are written in such a manner that a "No" response indicates a weakness that should be addressed.

COSO Framework	Yes	No	Not sure	Comments
Control Environment—Demonstrates Commitment to Integrity and Ethical Values				
1. Do comprehensive standards of conduct exist addressing acceptable business practices, conflicts of interest, and expected standards of ethical and moral behavior for the entity? Is the board accountable for the definition and application of the standards?	___	___	___	

[3] The 2013 Internal Control – Integrated Framework is available for purchase via coso.org and aicpastore.com.

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2.	Are the standards of conduct communicated and reinforced regularly to all levels of the entity, outsourced service providers, and business partners? Are management's efforts to communicate the standards both sufficient and effective in creating awareness and motivating compliance? See also the section, "Audit Committee Responsibilities Related to Fraud" in chapter 6 of this toolkit.	___	___	___	
3.	Do the board and management demonstrate through actions and behaviors their commitment to the standards of conduct? Is there consistency at all levels of the entity? Is appropriate action taken in response to violations of the standards of conduct?	___	___	___	
Control Environment—Exercises Oversight Responsibility					
4.	Does the board of directors define, maintain, and evaluate periodically the skills and expertise needed among its members to enable them to ask probing questions of senior management and take commensurate actions?	___	___	___	
5.	Does the board set the expectations for the performance, integrity, and ethical values of senior management?	___	___	___	
6.	Does the board assume oversight responsibility for management's design, implementation, and conduct of internal control?	___	___	___	
Control Environment—Establishes Structure, Authority, and Responsibility					
7.	Has the board established appropriate oversight structures and processes (board and committees) for the entity? Is the organizational structure within the accounting function appropriate for the size of the entity?	___	___	___	

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8.	Does the board retain authority over significant decisions and review management's assignments and limitations of authorities and responsibilities?	___	___	___	
Control Environment—Demonstrates Commitment to Competence					
9.	Do board committees contain members who have the requisite level of skills and expertise commensurate with the committee's responsibilities?	___	___	___	
10.	Are board-oversight effectiveness reviews commissioned periodically, with opportunities for improvement identified and addressed?	___	___	___	
11.	Is the board effective in exercising its fiduciary responsibilities to external stakeholders (as applicable) and due care in oversight (for example, prepare for and attend meetings, review the entity's financial statements and other disclosures)?	___	___	___	
12.	Does the board or a board committee evaluate the performance, integrity, and ethical values of senior management and act as necessary to address shortcomings? Is the board informed about personnel turnover in key functions?	___	___	___	
13.	Do succession plans, contingency plans, or both exist for the CEO and other key roles in order to assign responsibilities important to internal control?	___	___	___	
Control Environment—Enforces Accountability					
14.	Does the board challenge senior management by asking probing questions about the entity's plans and performance, and require follow-up and corrective actions, as necessary?	___	___	___	

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15.	Does the board act to address competence, internal control, and standards of conduct shortcomings among the CEO, the entity, and its outsourced service providers?	___	___	___	
16.	Does the board or a board committee align executive compensation, incentives, and rewards appropriately, including consideration of related pressures, with the fulfillment of internal control responsibilities in the achievement of objectives?	___	___	___	
Risk Assessment					
1.	Does the board consider significant risks to the achievement of objectives from external sources, such as creditor demands, economic conditions, regulation, cybersecurity, labor relations, and sustainability? Does the entity identify related issues and trends?	___	___	___	
2.	Does the entity consider significant risks to the achievement of objectives from internal sources, such as business continuity, retention of and succession planning for key employees, financing and the availability of funding for key programs, competitive compensation and benefits, and information systems security and backup systems? Does the entity identify related issues and trends?	___	___	___	
3.	Does management have a process in place to assess risk proactively as significant changes, such as entering a new market, disruptive innovations, economic/geopolitical shifts, fraud, and management override of internal controls, occur?	___	___	___	
4.	Does the board apply an appropriate level of skepticism and challenge	___	___	___	

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	management's assessment of risks? Is the risk of misstatement of the financial statements considered, and are steps taken to mitigate that risk?				
Control Activities					
1.	Does the board assume the responsibility for overseeing senior management effectively in its performance of control activities?	___	___	___	
2.	Does the board have necessary assurance from management, internal auditors, independent auditors, and others (as appropriate) that control activities are designed effectively and operating to address all significant risks to the preparation of reliable financial statements?	___	___	___	
3.	Does the board make specific inquiries of management regarding the selection, development, and deployment of control activities in significant risk areas and remediation as necessary? Does the entity design control activities proactively to address emerging significant risk areas?	___	___	___	
Information and Communication					
1.	Do the board and management have an effective level of communications in place to enable fulfillment of their roles with respect to the entity's objectives and to enable consistency in direction and tone at the top?	___	___	___	
2.	Does the board receive the necessary operational and financial information relating to the entity's achievement of objectives on a timely basis and in a format that facilitates its use? Does the board review and discuss this information?	___	___	___	

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3.	Does the board apply critical judgment effectively to scrutinize information provided and present alternative views?	___	___	___	
4.	Does the board review disclosures to external stakeholders for completeness, relevance, and accuracy?	___	___	___	
5.	Does the board receive communications regarding relevant information from third party assessments?	___	___	___	
6.	Do open communication channels exist to allow relevant information to flow to the board from internal and external stakeholders, independent auditors, regulators, and others?	___	___	___	
7.	Is there an effective process established and publicized periodically to officers, employees, and others to allow open communication of suspected instances of wrongdoing by the entity or employees of the entity? See also the tool titled "Whistleblower Complaint Reporting Common Practices Checklist" in the chapter 7 appendix.	___	___	___	
Monitoring Activities					
1.	Does the board understand the nature and scope of ongoing monitoring procedures and/or separate evaluations to enable an effective evaluation of whether the components of internal control continue to function over time?	___	___	___	
2.	Does the board inquire of management, internal auditors, independent auditors, and others (as appropriate) to understand the presence and nature of any management overrides of controls?	___	___	___	
3.	Does the board receive regular communications from management regarding its evaluation of internal control	___	___	___	

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	and the status of remediation of deficiencies?				
4.	Does the board engage with management, internal auditors, independent auditors, and others (as appropriate) to evaluate the adaptability of the entity's strategies and internal control framework to evolving business, infrastructure, regulations, and other factors?	___	___	___	

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Chapter 2: Audit Committee Structure

The audit committee reports directly to the board of directors. As an industry best practice, the committee would consist of no fewer than four independent members, as defined later in this section. At least one member would be designated as a financial expert, also subsequently defined. The board appoints members of the audit committee, designates the chairperson annually, and may replace members at any time. The audit committee may form and delegate authority to subcommittees consisting of one or more members when appropriate.

Audit Committee Member Qualifications

What makes an individual a good candidate for audit committee membership? In addition to integrity, business acumen, and the ability to be actively engaged, an effective audit committee needs members with the following key qualities.

Independence

When audit committee members are independent of management, they are better equipped to be objective in carrying out their oversight duties.

Awareness and understanding of the independence rules is critical to maintaining audit committee independence, and audit committee effectiveness. Therefore, as an industry best practice, independence rules are not just part of the new board member training and onboarding process, but also part of ongoing board member communication. Some organizations engage legal counsel to help with this, and many circulate independence assessment questionnaires among audit committee members at least annually, often requiring that they confirm their independence in writing. Key definitions related to independence are shown on the following page.

Be sure to read the Form 990 instructions for Part VI, Section A, Line 1b and refer to the NFP Section article on Form 990 Part VI for additional information on independence requirements.

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The following are important definitions related to independence:

An affiliate of the entity is a person or entity that is directly or indirectly through one or more intermediaries, controlled by, in control of, or under common control with the entity.

A financial interest exists if a person receives, directly or indirectly, an economic benefit from any transaction, agreement, compensation agreement involving the entity, including:

- having an ownership or investment interest in any entity with which the entity has a transaction or arrangement.
- having a compensation arrangement with the entity or with any organization or individual with which the entity has a transaction or arrangement, including direct and indirect remuneration as well as gifts or favors that are substantial in nature (inexpensive gifts or services that have a retail value of no more than $10 individually, and no more than $50 in the aggregate annually are not considered "substantial") or a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the entity is negotiating a transaction or arrangement.
- accepting payments, loans, services or gifts from anyone doing or seeking to do business with the entity.
- being an officer or director of any organization doing or seeking to do business with the entity.

An independent director of the entity is not, and has not within the last three years been, (a) an employee of the entity or any affiliate, and does not have a relative who is or has been within the last three years a key employee of the entity or any affiliate; (b) an individual who has received or has a relative who received (more than $10,000 in direct compensation from the entity or any affiliate within any of the last three fiscal years (other than reimbursement of reasonable expenses or reasonable compensation for serving as a director); or (c) an employee of, or an individual who has a substantial financial interest in, any entity that has made payments to or received payments from the entity or an affiliate for property or services (which, in any of the last three fiscal years, exceeds the lesser of $25,000 or 2 percent of such entity's consolidated gross revenues) and does not have a relative who is an officer of or has a substantial financial interest in any such entity.

A key employee is any person who is, or has within the last five years been, in a position to exercise substantial influence over the affairs of the entity including, without limitation, any employee with responsibilities similar to those of any person designated as president, chief executive officer, chief operating officer, treasurer, or chief financial officer.

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Industry Knowledge

Not-for-profit entities have unique accounting and financial reporting rules, regulatory and compliance requirements, risks, operating nuances, and stakeholder concerns that, while not always complex, are critical for audit committee members to understand. Thus, experience in the not-for-profit industry is valuable for audit committee members in carrying out their oversight duties. In addition, audit committee members need to understand the other industries the NFP operates in, such as, for example, healthcare, education, or religion.

Financial Expertise

A financial expert is a person who has the following attributes:

- An understanding of generally accepted accounting principles and financial statements
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves
- Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities
- An understanding of internal controls and procedures for financial reporting
- An understanding of audit committee functions

In addition, the following are also typical components of financial expertise:

- A general understanding of the financial issues and specific knowledge of the sector (for example, health care, not-for-profit, and higher education, among others) in which the organization participates
- A general knowledge of any current relative concerns or regulatory issues surrounding the entity's specific sector
- An understanding of the past three to five years of the entity's financial history

Although there is no explicit legal requirement for a not-for-profit audit committee to include a member having some level of financial expertise, it is considered an industry best practice. In addition, the audit committee may aim to have all its members possess some level of experience in financial matters and an understanding of the entity's mission, programs, and the sector in which it operates.

The following questions may be used to assess whether an individual audit committee member, or the committee as a whole, possesses the preceding attributes:

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- Does state law include certain requirements of audit committees regarding independence, oversight (that is, the criteria for the entity's audit), governance, committee activities, or other criteria?
- Have one or more individuals completed a program of learning in accounting or auditing?
- Do one or more individuals have experience as a chief or principal financial officer (for example, finance director or business manager), principal accounting officer, controller, public accountant, or auditor?
- Do one or more individuals have experience in position(s) that involve the performance of similar functions?
- Have one or more individuals gained experience by actively supervising a person or people performing one or more of these functions?
- Do one or more individuals have experience overseeing or assessing the performance of companies, or public accountants with respect to the preparation, auditing, or evaluation of financial statements?
- Do one or more individuals have other relevant financial experience (for example, service on boards of not-for-profits, health care entities, higher education institutions, and the like)?
- Do one or more individuals have experience serving on audit committees of other not-for-profit entities?

FAQ:

Does the financial expert have greater liability than other audit committee members?

Answer:

No. However, audit committee members are encouraged to seek the advice of legal counsel regarding their liability.

Audit committees may also use the following decision tree when assessing whether a member meets the statutory requirements to fulfill the role of audit committee financial expert.

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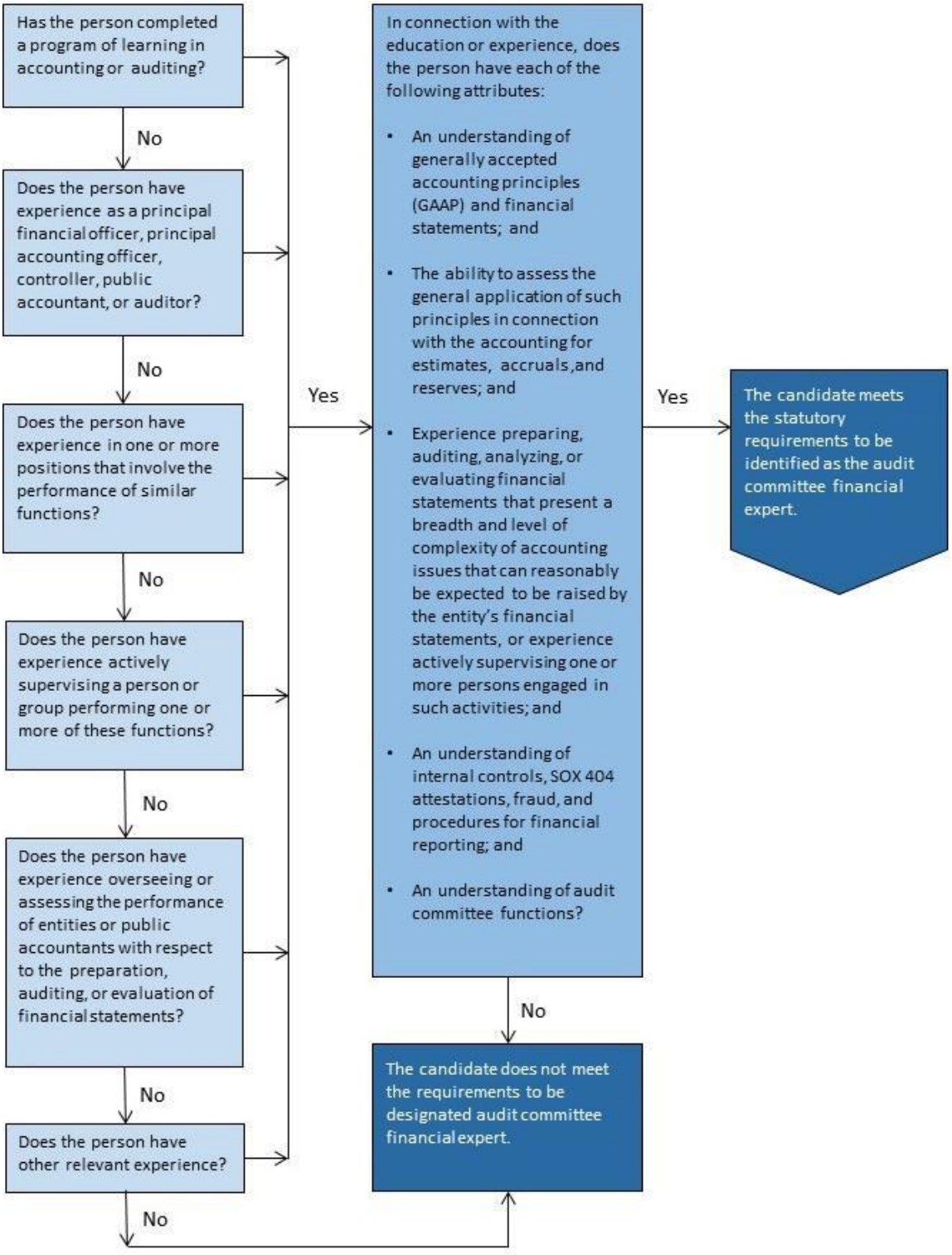
Decision Tree: Evaluating a Candidate for Financial Expert



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Alternative Approaches

Based on the public awareness and environment surrounding the not-for-profit sector, at least some, if not all, members of an NFP's audit committee have adequate not-for-profit financial knowledge and expertise as an industry best practice. However, if no individual member of the audit committee nor the committee members collectively possesses the attributes required for financial expertise, the following options might be considered:

- Recruit new independent board members with the requisite expertise. Check with your state CPA society for recruitment resources.
- Engage a financial professional to provide financial expertise as a consultant to the audit committee. Such an individual should otherwise be independent with respect to the entity (that is, should have no other financial arrangements with the entity).
- Pursue a training program for audit committee members to develop the financial expertise (e.g., professional development programs offered by the AICPA, associations, or the specific sector in which the entity participates, or in-house training programs led by members of the entity's financial management team).
- If bylaws allow it, open audit committee membership to persons who are not also members of the board of directors or trustees to provide an opportunity for potential volunteers who have financial expertise but cannot commit to regular board meetings to participate at the (limited) committee level. This can be particularly helpful for smaller not-for-profits.
- Establish a relationship with a peer or otherwise comparable entity to have the CFO for one entity provide financial expertise to the other. Such arrangements can be reciprocal or involve multiple entities.

Audit Committee Chair

As previously mentioned, the board of directors normally designates the audit committee chair. The chair presides at each audit committee meeting and may, before each meeting, meet one-on-one with members of management, auditors, etc. as needed to better understand the matters on the agenda for discussion. Equipped with this understanding, the audit committee chair can better prioritize the topics and align discussion times accordingly. The audit committee chair would also be available to address any issues that arise between meetings, and, if assigned, receive any whistleblower reports and communications from independent auditors.

Clearly, this is a role that requires active involvement, so it is important that the person chosen to serve as chair has adequate availability to perform effectively. In addition to the qualities of independence and industry and financial knowledge discussed previously, strong leadership qualities, such as organization and communication skills and a proactive mindset, are also essential for success in the audit committee chair role.

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Chapter 3: Audit Committee Administration

This chapter addresses best practices for how audit committees are governed, as well as common administrative questions such as:

- What are typical audit committee procedures?
- What does an audit committee charter include and how is it useful?
- What does a typical audit committee meeting agenda look like?
- How much time do audit committee members typically devote to committee work?
- What do audit committees focus on?
- What are executive sessions and how are they structured?
- How do audit committees evaluate their own effectiveness?

Audit Committee Procedures

Audit committee administrative procedures typically include, but are not limited to, the following:

- Develop an audit committee charter and obtain approval from the board of directors.
- Conduct an annual review of the audit committee charter.
- Set agendas for the audit committee meetings and develop an annual calendar or plan that aligns with the annual board meeting and is based on the audit committee charter and other relevant issues.
- Ensure meeting minutes are prepared.
- Provide audit committee reporting responsibilities to the board of directors.
- Help other board members understand the financial statements, financial statements risks, and internal controls over financial reporting.
- Prepare an annual audit committee report.
- Conduct an annual self-assessment.
- Conduct regularly scheduled and documented meetings with the independent auditor, chief audit executive (CAE) or leader of the internal audit function, general counsel, CEO, CFO or finance department leader, senior management, and others as needed. These meetings are generally conducted in executive sessions at the conclusion of each regularly scheduled audit committee meeting.

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Chapter 3 Appendix

Sample Audit Committee Charter Matrix

Preparing an audit committee charter is an industry best practice for not-for-profit entities because it clearly depicts the committee's key responsibilities. However, the charter is often prepared and forgotten except for its annual review. The matrix included in this chapter is designed to help audit committees make the charter a living document and use it to manage their meetings and other procedures efficiently and effectively. This comprehensive tool is meant to serve as both a template and a sample of an audit committee charter that can be customized for a specific organization based on its size and complexity. Users should replace the sample charter items in the first column with their own and use the examples in the other columns as a guide.

Audit Committee Charter Matrix for the Year Ending: _____ Date of Board Approval: _____

Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Each member of the audit committee shall be independent in order to serve on this committee. (Note that while independence is not required for audit committee members of not-for-profit entities, it is considered an industry best practice; therefore, some not-for-profit entities may have a different structure.)	Provide training on independence rules for new and existing members. Circulate a self-assessment questionnaire regularly to keep independence rules top of mind. Test for independence by requiring member signature.	Written member independence affirmation (signature). Indicate in the audit committee minutes whenever a new member is appointed; acknowledge that independence has been verified.	Affirm annually and whenever a change in status by any audit committee member occurs.	

Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
At least one member of the audit committee shall be designated as a *financial expert*. (See "Audit Committee Financial Expert Considerations and Decision Tree," in chapter 2 of this toolkit. Note that this is required for public companies but not for audit committee members of not-for-profit entities.)	Ascertain that at least one member of the audit committee meets the requirements of a financial expert.	Indicate in audit committee meeting minutes which member of the audit committee is designated as the financial expert.	Affirm annually, unless there is a change in status.	
Review the audit committee's charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the board of directors. Consider changes that may be necessary as a result of new laws or regulations.	Review the charter each year. Assess the appropriateness of each point in the charter in light of the previous year's experience. Assess the completeness of the charter in light of new industry practices and new legal or regulatory requirements.	Report to the board on the appropriateness of the audit committee charter and any revisions recommended.	Review annually, unless changes are needed during the course of the year.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
The audit committee shall meet as deemed appropriate, but at least twice per year. These meetings may be combined with regularly scheduled meetings, or more frequently as circumstances may require. The audit committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.	Hold in-person meetings at least twice per year. All members are expected to attend each meeting in person, or via telephone conference or videoconference. Telephone conference meetings may be held more frequently. Meeting agendas are prepared and provided to members in advance, along with appropriate briefing materials.	Prepare minutes that document decisions made and action steps following meetings and review for approval. Then file meeting minutes with the board of directors.	Minutes are distributed as soon as possible but no later than prior to the next meeting.	
Conduct executive sessions with the independent auditors, chief executive officer (CEO), chief financial officer (CFO), chief audit executive (CAE), and anyone else as desired by the committee.	Establish these sessions in conjunction with scheduled meetings or as necessary. (See Executive Sessions: Questions to Consider tool in the chapter 3 appendix.)	Develop action steps to be taken if appropriate.	Review as necessary.	
The audit committee shall be authorized to hire outside counsel or other consultants as necessary. This may take place any time during the year. (See the chapter 6 appendix for "Best Practices: Engaging Independent Counsel and Other Advisers," in this toolkit.)	Requests for proposals (RFPs) or requests for information (RFIs) should be used, if time permits.	Report submitted by outside counsel or consultant.	Review as needed.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review and concur in the appointment, replacement, reassignment, or dismissal of the CAE (or equivalent). (See the chapter 5 appendix for related tools for hiring the CAE.)	Meet in executive session at each meeting with the CAE to allow assessment and feedback. Hold special meetings as may be necessary to address appointment, reassignment, or dismissal of CAE. The audit committee chair needs to be available if any unforeseen issues arise between meetings relating to the CAE. Meet at least once annually with other members of executive management and the independent auditors to discuss the performance of the CAE. Discuss job satisfaction and other employment issues with the CAE.	Report to the full board on the performance of the CAE, including the effectiveness of the internal audit function.	Conduct ongoing reviews, as changes can be made at any time during the year.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Appoint the independent auditors to be engaged by the not-for-profit entity, establish the audit fees of the independent auditors, pre-approve any non-audit services provided by the independent auditors, including tax services, before the services are rendered. Review and evaluate the performance of the independent auditors and review with the full board of directors any proposed discharge of the independent auditors. (See the Sample Request for Proposal in the chapter 5 appendix, and see chapter 5 for a sample list of questions for the auditor regarding peer reviews.)	At least once each year, discuss each of these items with management, the CAE, and the board of directors. Review total audit fee in relation to any non-audit services being provided by the independent auditor. Discuss the audit committee's review of the independent auditors with the board of directors. Ascertain that the independent auditors do not perform any non-audit service that is prohibited by any regulator or body that has authority in this area. Consider establishing pre-defined acceptable services the independent auditor may engage in based upon regulations.	Report on and recommend the performance and fees paid to the independent auditors. Review the scope of *all* services provided by the independent audit firm throughout the entity.	Review soon after year-end.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Ascertain that the lead (or concurring) independent audit partner does not serve in that capacity for more than five of the not-for-profit entity's fiscal years (best practice).	Establish when the five-year limit will be reached for the current lead independent audit partner. At least a year prior to that time, discuss transition plans for the new lead independent audit partner. Although a public-company practice, the partner rotation requirements do not apply to not-for-profit entities.	Document these discussions in audit committee meeting minutes.	Review annually with the independent auditors.	
Review with management the policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor or the independent auditors.	Review policies and procedures annually. Discuss with the CAE the need for testing by either the internal auditors, independent auditors, or other parties.	Report issues, if any, to the board.	Review policies and procedures at a regularly scheduled meeting and discuss audit plan. Review any significant findings as they arise.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Consider with management the rationale for employing audit firms and other outside specialists other than the principal independent auditors.	Establish a policy for the audit committee to pre-approve engaging auditors other than the principal independent auditors. Use RFPs or RFIs for engaging other professionals for non-audit services that the independent auditor cannot perform. Review compliance with the policy by management. (See the Sample Request for Proposal in the chapter 5 appendix.)	Document auditor selection criteria. Also, use a decision matrix to evaluate and document the third-party selection. Prepare an engagement letter for each service or project.	Continually review the policy and the not-for-profit entity's compliance with it. Other auditors may need to be hired at any point during the year.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Inquire of management, the CAE, and the independent auditors about significant risks or exposures facing the not-for-profit entity; assess the steps management has taken or proposes to take to minimize such risks to the entity; and periodically review compliance with such steps. (See the tools and guidance included in chapter 6 of this toolkit.)	Create a portfolio that documents the material risks that the entity faces. Update as events occur. Review with management and the CAE quarterly or sooner if necessary, to make sure it is up to date.	Submit a risk report including mitigation strategies, quantifiable risks, and insurance to cover such risks as loss of business.	Review at least once each year, and more frequently if necessary.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review the audit scope and plan of the internal auditors and the independent auditors with the independent auditor, the controller (or equivalent) of the not-for-profit entity, and the CAE (or equivalent). Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.	Meet with the independent audit partner, the controller (or equivalent), and CAE (or equivalent) to discuss the scope of the previous year's audit and lessons learned. Later, discuss planned scope for audit of current year.	Document the meeting in the audit committee meeting minutes.	At the second meeting each year, review the scope of the previous year's audit, and the inter-relationship between the internal and independent auditors with respect to the scope of the independent auditors' work. No later than the third quarter meeting each year, review the plans for the audit of the current year.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review with management and the CAE (or equivalent): 1. significant findings on internal audits during the year, and management's responses thereto. 2. any difficulties the internal audit team encountered in the course of their audits, including any restrictions on the scope of their work or access to required information. 3. any changes required in the scope of their internal audit. 4. the internal auditing department budget and staffing. 5. the internal auditing department charter. 6. internal auditing's compliance with IIA's Standards for the Professional Practice of Internal Auditing (standards).	Review and discuss the findings for each audit completed since the prior meeting, and management's response to the report. Discuss internal audit department budget and staffing with CAE (or equivalent). Discuss internal audit's compliance with the Institute of Internal Auditors' (IIA) standards, including the requirement for a peer review once every five years.			

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Inquire of the CEO, CFO (or equivalent), controller, independent auditor, and anyone else desired by the audit committee, regarding the quality of the not-for-profit entity's financial reporting from a subjective as well as an objective standpoint.	Discuss the quality of financial reporting with the CEO, CFO (or equivalent), controller, independent auditor, and other executives. Identify any issues addressed, and their resolution.	Include in agenda for executive sessions. (See the chapter 3 appendix for Executive Sessions: Questions to Consider.)	Review, as necessary, but at least annually.	
Review with the independent accountants and the CAE (or equivalent) the adequacy of the not-for-profit entity's internal controls including computerized information system controls and security. any related significant findings and recommendations of the independent auditors and internal audit services together with management's responses thereto. (See the tools and guidance included in chapter 6 of this toolkit.)	Review key internal controls with the CAE (or equivalent) and understand how these controls will be tested during the year. Review these plans with the independent auditor to understand their scope with respect to key controls. Review with the CAE (or equivalent) the plans for audits of other elements of the control environment. Determine that all internal control weaknesses are quantified, reviewed, and addressed.	Report to the board of directors on issues relating to internal controls, with emphasis on management's ability to override and related monitoring and testing.	Submit a comprehensive report to the board at the second quarter meeting each year. Update on anything new, or any changes to the internal control system, at every meeting.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review with management and the independent auditor the effect of any new regulatory and accounting initiatives.	Independently, through professional reading and CPE, keep up to date on new developments related to the industry, and the environment in which the not-for-profit entity operates, including any regulatory requirements to which it may be subject. Discuss with management and the independent auditors in meetings.	Record discussion and any action steps in audit committee meeting minutes.	Review as necessary.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review with the independent auditor: 1. All critical accounting policies and practices used by the not-for-profit entity. 2. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the not-for-profit entity, the ramifications of each alternative, and the treatment preferred by the organization. (See the tool in chapter 4, "Sample Issues Report from Management.")	Discuss each matter and related matters that may come to the attention of the audit committee or the independent auditors through this process. Create an action plan and follow-up plan as necessary.	Submit reports and documentation of discussions and resolution of disagreements.	Review, at least annually, and in conjunction with the year-end audit.	
Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.	Discuss each item with the independent auditors and management, including the CAE, and conclude on the appropriateness of the proposed resolution.	Submit reports and documentation of discussions, resolution of issues, and the action plan for any items requiring follow up and monitoring.	Review at the completion of the independent audit.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review with management and the independent auditors: 1. the entity's annual financial statements and footnotes. 2. the independent auditors' audit of the financial statements and their report thereon. 3. the independent auditors' judgments about the quality, not just the acceptability, of the entity's accounting principles as applied in its financial reporting. 4. any significant changes required in the audit plan. 5. any serious difficulties or disputes with management encountered during the audit . 6. matters required to be discussed in accordance with AICPA *Professional Standards*, related to the conduct of the audit.	Discuss each matter, and others that may come to the attention of the audit committee through this process, with management (including the CAE) and the independent auditors. Review with management the course of action to be taken for any action requiring follow up. Monitor any follow-up action that requires continued audit committee intervention. (See chapter 5 for more information on independent auditor communications with the audit committee.)	Submit reports and documentation of discussions, resolution of disagreements, or action plan for any item requiring follow up.	Review at the completion of the independent audit.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review with the general counsel and the CAE legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements, related not-for-profit entity compliance policies, and programs and reports received from regulators.	Discuss whether the not-for-profit entity is in compliance with laws and regulations that govern the environment(s) and industry(ies) in which it operates, as well as other applicable laws and regulations.	Report to the board that the review has taken place and any matters that need to be brought to its attention.	Review at each meeting.	
Periodically review the not-for-profit entity's code of conduct to ensure that it is adequate and up to date. Review with the CAE and the not-for-profit entity's general counsel the results of their review of the monitoring of compliance with the entity's code of conduct.	Review results with the CAE and general counsel. Consider any adjustments that may be necessary to the not-for-profit entity's code of conduct. Consider steps that may need to be taken to ensure that compliance is at the highest possible level.	Report to the board that the review of the code of conduct was done. Recommend changes to the code of conduct to the board as needed.	Review annually at the fourth-quarter meeting. Review any significant findings as they arise.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
Review the policy and procedures for the receipt, retention, and treatment of complaints received by the not-for-profit entity regarding illegal or unethical behavior, violations of law, regulation, rule or policy of the entity, accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the entity. Review any such complaints that might have been received, current status, and resolution, if one has been reached.	Review procedures with the CAE and the general counsel. Review all complaints that have been received and the status of resolution. Ensure that proper steps are taken to investigate complaints and resolve timely. (See the related tools in the chapter 7 appendix.)	Review an original of each complaint received, no matter the media used to submit. Discuss the status or resolution of each complaint. Review a cumulative list of complaints submitted to date to review for patterns or other observations.	Review at each meeting.	
The audit committee will perform other functions as assigned by law, the not-for-profit entity's charter or bylaws, or the board of directors.	Monitor developments in the regulatory, legislative, and legal environments, and respond to any new requirements as needed.		Review new business at all meetings.	

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Audit Committee Charter Item	Steps to Accomplish the Objective	Deliverable	Frequency or Due Date	Date Completed
The audit committee will evaluate the independent auditors and internal auditors.	Use information from executive sessions conducted throughout the year. Use a formal assessment tool for each group. (See the tools and guidance in chapter 5 and its appendix.)	Submit recommendations for changes in process and procedures. For independent auditors, request RFPs or RFIs, if changes are being considered.	Review after completion of the annual audit.	
The audit committee will review its effectiveness.	The audit committee will conduct a self-assessment and 360-degree evaluation of all members. (See the self-assessment matrix in the chapter 3 appendix.)	Discuss recommendations for improving the effectiveness of the audit committee with the board of directors. Record in board meeting minutes.	Review annually.	
Create an audit committee calendar for the ensuing year or review and approve the agenda submitted by the CAE.	Complete the “Audit Committee Charter Matrix.” (Use this tool as a sample and tailor it to your organization.)	Ensure alignment with the annual board calendar.	Review at the fourth quarter meeting for the upcoming year.	

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Meetings

How often do audit committees meet?

As an industry best practice, audit committees typically meet at least twice a year—once to review the audit plan and once to review the audited financials, the IRS Form 990 and related filings, and to review the audit engagement, special investigations, financial irregularities and internal control failures. However, more frequent meetings may be necessary for the committee to fulfill its responsibilities, and this could depend on factors such as the NFP's complexity, its stage of development, and the size and scope of current issues that need to be addressed.

How are audit committee meetings typically structured?

The chairperson (or acting chair) may direct appropriate members of management and staff to prepare draft agendas and related background information for each audit committee meeting. To the extent practical, the meeting agenda and any background materials are distributed to the audit committee members prior to the meeting. The chairperson (or, if the chairperson is absent, the designated acting chair) presides at each meeting to ensure adherence to the agenda. Meeting notes document key decisions and be shared with the full board.

What do audit committee meetings focus on?

To effectively perform its oversight duties, the audit committee conducts meetings that focus on

- financial reporting risk—including,
  - critical accounting judgments and estimates and the underlying assumptions,
  - disclosures, and
  - new accounting and financial reporting issues and developments;
- internal audit and independent audit effectiveness—including,
  - internal audit staffing and resources,
  - results of any special investigations,
  - any impairments of independence, and
  - independent auditor reviews;
- risk management—including,
  - any policy breaches,
  - details of any fraud discovered; and

— legal and regulatory compliance.

Executive sessions, discussed further in the following section, are also useful in gathering insight into these areas. These important sessions, where audit committee members can question internal auditors and independent auditors without senior management present, are often paired with audit committee meetings.

Executive Sessions

What are executive sessions, and why are they important?

Audit committees (as well as full boards) hold executive sessions with executive management, finance leaders, the leader of the internal audit team (if applicable), and the independent auditor to gather information needed to help fulfill their oversight responsibilities. An executive session is a “meeting within a meeting” led by the audit committee to gather information from a specific party in a one-on-one setting that promotes open and honest communication. The audit committee determines the appropriate attendees for each executive session with the intent of creating a “safe” environment—typically, just the audit committee and the individual selected for the executive session.

What questions should the audit committee ask during an executive session?

The "Executive Sessions: Questions to Consider" tool on the following pages highlights the breadth of the questions that audit committees could ask during executive sessions. It is intended for use as a starting point, with the understanding that the audit committee has the necessary expertise to evaluate answers, develop appropriate follow-up questions and, when necessary, take follow-up action. The tool contains a variety of questions for all the different parties audit committee members may choose to meet with in executive sessions, and it is filterable by meeting attendee and by topic for optimal utility.

The questions in the following tool can be used to assist audit committees in gathering information regarding both known and unknown issues. They are not, however, intended to be a comprehensive checklist. It will not be unusual to ask similar questions of key executives, the independent auditor, or the internal auditor, because comparing their respective responses could be a good source of insight.

It is important to note that not every organization will have all of the positions listed in the tool, nor will every organization have different individuals in each position. That said, the audit committee should be aware of individuals that fulfill dual roles or work together to share a role and adjust the questions accordingly. For example, in a small organization, the CFO and controller might share the duties of the director of financial reporting. The audit committee would explore how a function or role is accomplished and compose questions appropriately. The audit committee also needs to consider other roles in the entity beyond those listed in the tool in case others should be asked to meet in executive session.

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Executive Sessions: Questions to Consider

Sample Questions to Ask During Audit Committee Meetings or Executive Sessions

			Position to Ask								
	Question	Subject	Chief Executive Officer (CEO)	Chief Financial Officer (CFO)	Chief Audit Executive (CAE)	General Counsel	Controller	Chief Information Officer (CIO)	Independent Auditor	Comments	Follow-up Questions
1	Do you believe the financial statements present the entity's financial position fairly?	Financial Statements	X	X	X		X		X		
2	Has the entity solicited or received advice from or given advice to any outside party on how to structure any transaction to produce a desired financial statement effect? If so, please provide details.	Financial Statements	X	X	X	X	X		X		
3	Do you believe the disclosures are adequate and that the average user of the financial statements will understand them?	Financial Statements	X	X	X		X				
4	Are you satisfied that an appropriate audit was performed by the independent auditors?	Independent Auditor	X	X	X		X	X			
5	Are you aware of any situations in which the entity's accounting practices were manipulated?	Fraud/Ethics	X	X	X	X	X				
6	Are you aware of any current or past fraud occurrence or any type of fraud in the entity? Do you know of any situations in which fraud could occur?	Fraud/Ethics	X	X	X	X	X	X	X		
7	Have you encountered any situations in which the entity complied with legal minimums of behavior, yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?	Fraud/Ethics	X	X	X	X	X	X	X		
8	Do you feel comfortable raising issues without fear of retribution?	Fraud/Ethics	X	X	X	X	X	X	X		
9	Are you aware of any disagreements between the entity's management team and the independent auditors?	Independent Auditor	X	X	X	X	X	X	X		
10	Are you aware of any disagreements between the entity's management team and the internal auditors?	Internal Environment	X	X	X	X	X	X	X		
11	Is there any activity at the executive level of management that you consider to be a violation of laws, regulations, GAAP, professional practice, or business ethics?	Fraud/Ethics	X	X	X	X	X	X	X		
12	Are there any questions we have not asked that we should have asked? If so, what are those questions?	General	X	X	X	X	X	X	X		
13	Overall, is management cooperating with the internal audit team? Does management have a positive attitude in responding to findings and recommendations, or is it insecure and defensive of findings?	Internal Environment	X	X	X	X	X	X	X		
14	Has management set an appropriate tone at the top with respect to the importance of and compliance with the internal control system around financial reporting?	Internal Environment	X	X	X	X	X	X	X		
15	Discuss areas in which there is an accounting treatment that could be construed as aggressive. Has the entity taken any tax positions that could be construed as aggressive?	Financial Statements	X	X	X		X		X		
16	Do you have the freedom to conduct audits as necessary throughout the entity?	Internal Environment			X				X		
17	Were you restricted or denied access to requested information?	Internal Environment			X				X		
18	Have you been pressured to change findings, or minimize the language in those findings so as to not reflect badly on another member of management? Are findings and recommendations given the level of discussion needed to satisfy any issues raised to your satisfaction?	Fraud/Ethics			X				X		
19	If you were the CFO, how would you change the financial statements and accompanying footnotes?	Financial Statements					X				
20	Are there any issues since our last meeting that you wish to discuss with the audit committee?	General	X	X	X	X	X	X	X		
21	Do you believe the financial statements and related disclosures convey the entity's financial situation adequately to an average stakeholder?	Financial Statements		X			X		X		
22	Now that you have the opportunity, is there anything you want to tell the audit committee? Is there anything else that we need to know?	General	X	X	X	X	X	X			
23	Are you satisfied with the presentation of information about the entity in its financial statements?	Financial Statements	X	X		X			X		
24	Are you aware of any issues that could cause embarrassment to the entity?	Internal Environment	X	X	X	X	X	X	X		
25	Is there any activity in the entity with which you are uncomfortable, consider unusual, or that you believe warrants further investigation?	Internal Environment	X	X	X	X	X	X	X		
26	Explain the process your firm uses to assure that all of your engagement personnel are independent and objective with respect to our audit. Particularly, with respect to non-audit services, how do those services affect the work that you do or the manner in which the engagement team or others are compensated? Are you aware of any anticipated event that could possibly impair the independence, in fact or in appearance, of the firm or any member of the engagement team?	Independent Auditor							X		

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			Position to Ask								
	Question	Subject	Chief Executive Officer (CEO)	Chief Financial Officer (CFO)	Chief Audit Executive (CAE)	General Counsel	Controller	Chief Information Officer (CIO)	Independent Auditor	Comments	Follow-up Questions
27	Have management, legal counsel, or others made you aware of anything that could be considered a violation of laws, regulations, GAAP, professional practice, or the ethics of business?	Independent Auditor	X	X		X			X		
28	Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user understand our financial statements more fully?	Independent Auditor		X					X		
29	Have you expressed any concerns or offered comments to management with respect to how our presentation, including the notes or Management's Discussion and Analysis could be improved?	Independent Auditor							X		
30	Which accounting policies or significant business transactions do you think a stakeholder will have trouble understanding based on our disclosure? What additional information should we provide?	Independent Auditor							X		
31	Based on your auditing procedures, do you have any concerns that management may be attempting to manage earnings, either properly or improperly? Have you noticed any biases as a result of your audit tests with respect to estimates?	Independent Auditor							X		
32	In which areas have you and management disagreed?	Independent Auditor		X					X		
33	Discuss your impressions of the performance of the CAE in terms of the completeness, accuracy, and faithfulness of the financial reporting process.	Independent Auditor							X		
34	Has the firm been engaged to provide any services besides the independent audit of which the audit committee is not already aware?	Independent Auditor		X					X		
35	How can management improve in terms of setting an appropriate tone at the top?	Independent Auditor							X		
36	Describe the ideas you have discussed with management for improving the financial reporting internal control system.	Independent Auditor		X					X		
37	Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, though it has complied with GAAP.	Independent Auditor		X					X		
38	Is there anything going on in the entity with which you are uncomfortable, that you consider unusual, or that warrants further investigation?	Independent Auditor	X	X	X	X	X	X	X		
39	Are there any questions we have not asked that you wish to discuss with the audit committee?	Independent Auditor							X		
40	Describe your working relationship with the CEO.	Internal Environment		X	X	X		X			
41	If you were the partner-in-charge of the audit, what would you do differently?	Internal Environment	X	X	X	X	X	X			
42	How do you interface with the internal audit function, and do you believe it is successful?	Internal Environment	X	X		X		X			
43	Has the independent auditor been engaged for any services other than the annual audit of which the audit committee is not already aware?	Independent Auditor	X	X	X	X	X	X			
44	What issues arose from any internal control documentation and validation efforts?	Internal Environment	X	X	X			X			
45	What aspects of the business put the most strain on entity liquidity? On the company's financial position?	Financial Statements		X			X				
46	Which systems are the most difficult to use?	Internal Environment	X	X	X	X	X	X			
47	Are there any new systems or functionality that you would like to purchase but have delayed due to cost considerations?	Internal Environment	X	X	X	X	X	X			
48	What procedures or oversight are applied to manual journal entries that are proposed during the closing process?	Financial Statements		X			X				
49	Do the accounting and finance departments of the entity have adequate personnel, both in numbers and quality, to meet all their obligations?	Internal Environment		X			X				
50	What are the most difficult challenges facing the finance team today?	Internal Environment		X			X				
51	Which departments might benefit the most from additional personnel?	Internal Environment	X	X	X	X	X	X			
52	What were the personnel turnover rates in the accounting and finance teams for the last year?	Internal Environment		X			X				
53	Which of the entity's areas of operations had the biggest unplanned loss this past year? The biggest gain? What, if any, changes do you believe need to be made in these areas?	Financial Statements	X	X	X	X	X		X		
54	Describe your working relationship with the heads of the respective business units.	Internal Environment	X	X	X	X	X	X	X		
55	What are the biggest risks facing the entity in the next year? What steps do you think the entity should take to address those risks?	Internal Environment	X	X	X	X	X	X	X		
56	What are the biggest risks facing the entity over the long term? What measures do you believe the entity should take to address those risks?	Internal Environment	X	X	X	X	X	X	X		

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			Position to Ask								
	Question	Subject	Chief Executive Officer (CEO)	Chief Financial Officer (CFO)	Chief Audit Executive (CAE)	General Counsel	Controller	Chief Information Officer (CIO)	Independent Auditor	Comments	Follow-up Questions
57	In light of the fact that you certified to your review of the financial statements that the financial statements do not contain any untrue statement of material fact or omit material facts, that they present fairly the results of operations, and that you take responsibility for the design of the internal control system, and have evaluated the effectiveness of the internal control system, what were your areas of concern? Are you satisfied that those areas have been resolved?	Financial Statements	X	X			X				
58	What procedures are applied to the review of manual journal entries made during the closing process, and to other entries that could be termed as a management override of the internal control system around financial reporting?	Financial Statements		X			X		X		
59	If you were the CEO, how would you do things differently in the internal audit department?	Internal Environment			X				X		
60	Do you believe you have adequate resources available to you to fulfill the charge of the internal audit department? If not, what additional resources are needed?	Internal Environment			X						
61	Did you encounter any disagreements or difficulties between the internal audit team and the independent auditors in connection with the recently completed audit of the entity's financial statements? How will you approach the financial statement audit differently next year?	Internal Environment			X				X		
62	What critical risks are being monitored by the internal audit team on a periodic or regular basis? How do you address the continuous auditing of these critical risks, and are automation and integrated system reporting assisting you in this effort?	Internal Environment			X						
63	Are you aware of any other disagreements between the entity's management and the independent auditors?	Internal Environment	X	X	X	X	X	X	X		
64	Are there any disagreements between the internal audit team and management?	Internal Environment	X	X	X	X	X	X	X		
65	What issues arose from any control documentation and validation efforts?	Financial Statements	X	X	X	X	X	X	X		
66	Are the computer systems upon which you rely integrated, or is manual intervention required to integrate your systems?	Internal Environment		X			X	X			
67	What is your assessment of your performance?	Internal Environment	X	X	X	X	X	X	X		
68	What is your assessment of the CAE's performance?	Internal Environment	X	X		X	X	X	X		
69	Have you been asked to provide assurance to the CFO and CEO about your role in the financial reporting process? Is the requested assurance similar to the certifications that the CEO and CFO must make to regulatory bodies?	Financial Statements					X				
70	How could the financial statements and related disclosures be improved?	Financial Statements	X	X	X	X	X		X		
71	Are you satisfied with the integrity of the information running through the systems in the entity? How could technology improve the integrity of the information?	Internal Environment	X	X	X	X	X	X			
72	What exposure do the people and technical aspects of cybersecurity have on the entity's sensitive data?	Internal Environment	X		X	X		X	X		
73	If you had an unlimited budget, how would you spend money to improve the entity's internal controls including information architecture?	Internal Environment	X	X	X	X	X	X	X		
74	What do you consider your critical risk areas?	Internal Environment	X	X	X	X	X	X			
75	Describe your relationship with the CEO, CFO, and other key people in the accounting and finance teams.	Internal Environment	X	X	X	X	X	X	X		
76	Are manual journal entries identified and approved? Are they somehow brought to the attention of the CAE or other officers who did not have a hand in creating the journal entries?	Financial Statements		X	X		X		X		
77	Is documentation updated every time there is a change to the internal controls process?	Internal Environment		X	X		X	X			
78	What role, if any, did your firm have in management's documentation and assessment of the entity's internal control structure?	Independent Auditor							X		
79	What audit procedures are applied to manual journal entries that are proposed during the closing process, or to other journal entries that could be termed as management overrides of the internal control system around financial reporting?	Independent Auditor							X		
80	Was any audit work not performed due to any limitations placed on you by management, such as any areas scoped out by management, or any restriction on fees that limited the scope of your work?	Independent Auditor			X				X		
81	Was the audit fee that you charged the entity sufficient for the work that you performed?	Independent Auditor							X		
82	If you had had an unlimited audit fee, what additional work would you have performed?	Independent Auditor	X	X	X	X	X	X	X		

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Audit Committee Self-Assessment Matrix

The audit committee should conduct an annual self-evaluation to determine its performance and effectiveness and identify areas for improvement.

Audit committee members should answer a series of questions independently to complete their self-evaluations. The entire audit committee should discuss the answers and plan for further action as appropriate prior to kicking off the next audit committee year.

Note: The sample questions included in this tool are only a starting point for evaluating the performance and effectiveness of the audit committee. These questions should be completed anonymously by each audit committee member prior to the audit committee meeting, and the entire committee should discuss the responses.

Audit Committee Self-Evaluation	Yes	No	N/A	Comments
1. Does the committee have a charter that covers all standard best practices? Has the charter been reviewed annually? For a listing of standard best practices for an audit committee charter, see the Audit Committee Charter Matrix in chapter 2.	___	___	___	
2. Is the audit committee charter used to guide the committee's efforts and agenda? Have all elements of the committee's responsibilities as delineated in the audit committee charter been covered throughout the fiscal year?	___	___	___	
3. Are the members educated appropriately on the entity, its organizational structures, governance and internal control environment, and current hot topics, as well as the entity's risk profile?	___	___	___	
4. Are the members independent?	___	___	___	
5. Is there a sufficient mix of necessary skill sets and knowledge among the committee members, including acumen around financial reporting, risk assessments, internal controls, and systems?	___	___	___	

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6.	Do the committee members convey the appropriate tone at the top?	___	___	___	
7.	Do the committee members participate in some form of continuing education to stay abreast of changes in the relevant financial accounting and reporting, regulatory, and ethics areas?	___	___	___	
8.	Are the committee's meeting packages complete and given to committee members with enough lead time? Do the packages include the right information to allow meaningful discussion?	___	___	___	
9.	Are the committee meetings well organized, efficient, effective, and of the appropriate length? Do they occur often enough to allow discussion of issues that are relevant to and consistent with the committee's responsibilities?	___	___	___	
10.	Do the minutes and reports to the full board reflect the significant activities, actions, and recommendations of the committee?	___	___	___	
11.	Does the committee have open access to management, internal audit, and independent auditors? Do committee members have open, honest, and effective communication with management, the internal auditors, and the independent auditors? Is the committee able to challenge management, the internal auditors, and the independent auditors with its own view on issues as appropriate?	___	___	___	
12.	Are differences of opinion on issues resolved to the satisfaction of the entire committee?	___	___	___	
13.	Is the committee cognizant of the line between oversight and management, and does it endeavor to respect that line?	___	___	___	

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14.	Does the committee have a clear definition of the services the independent auditors are allowed to perform in order to maintain independence? Does the committee approve all allowed services of the independent auditors in advance?	___	___	___	
15.	Does the committee review the independent auditors' reports to ensure the auditors maintain their independence? Does the committee review the reports at least annually?	___	___	___	
16.	Is the committee aware of the last time the independent audit firm or lead partner was rotated and is the committee considering a future rotation?	___	___	___	
17.	Does the committee engage in the hiring and evaluation of the chief audit executive (CAE)? Does the committee provide feedback to the CAE? Does the committee do its part to ensure the quality and objectivity of the internal audit team?	___	___	___	
18.	Does the committee receive the appropriate level of information to evaluate the soundness of the entity's internal control environment?	___	___	___	
19.	Does the committee engage outside experts as appropriate?	___	___	___	
20.	Does the committee conduct executive sessions in a manner that offers a safe haven to the individual? During executive sessions, does the committee ask tough and necessary questions, evaluate the answers, and pursue issues that might arise to a satisfactory resolution?	___	___	___	
21.	Do the committee members challenge the chair as appropriate?	___	___	___	
22.	Does the committee receive constructive 360-degree feedback from management, internal and independent auditors, and peer groups?	___	___	___	

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23. Are the entity's overall governance and internal controls, including financial reporting processes, stronger as a result of management's interactions with the committee?	___	___	___	

Other Comments, Further Questions				

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Chapter 4: Financial Reporting Oversight

Oversight of financial reporting is one of the three primary responsibilities of an effective audit committee. Related activities, as discussed in this chapter, include reviewing various financial reports, accounting policies, and management and auditor communications; conducting inquiries and analyses; and understanding accounting and regulatory requirements, recent industry developments and trends, information technology, and internal controls relevant to the organization and its financial reporting. Together with the oversight of internal audit, financial statement audit, and risk management, these activities help the audit committee to promote good financial stewardship and to ensure the integrity of the organization's financial reporting.

Oversight of the Financial Reporting Process

The following illustrative list of responsibilities, which is not intended to be complete, includes both required duties and best practices for audit committee members related to financial reporting oversight.

- Review critical accounting policies, practices, judgments, estimates, significant issues, significant transactions, adjustments, unusual items, complex issues, and business arrangements.
- Review annual and interim financial statements and disclosures, as well as management's discussion and analysis. (See the section on analytical procedures in the chapter 4 appendix for metrics and indicators that may be useful.)
- Obtain explanations from management on all significant variances (e.g., budget-to-actual and period-to-period).
- Review comparative data from other organizations within the industry to perform reasonableness tests of the entity's results.
- Review annual audited financial statements and any federal Office of Management and Budget (OMB) Uniform Guidance reports. (See the primer on Single Audits in the chapter 4 appendix for additional information on federal awards and related questions audit committees should ask.)
- Review IRS Form 990 and state filings.
- Review presentation of financial information in the annual report.
- Inquire of management and the independent auditor on significant financial reporting issues.
- Facilitate the resolution of disagreements between management and the independent auditor regarding financial reporting issues.

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- Determine when a subject matter expert (SME) is required and hire advisers when needed.
- Review management letters and internal control letters containing the recommendations of the independent auditor and management's responses to those recommendations.
- Determine that adequate procedures are in place for the review of the entity's disclosure of financial information extracted or derived from the entity's financial statements and assess periodically the adequacy of these procedures.
- Understand complex accounting and reporting areas and how management addresses them, including the need for and use of SMEs. See the primer on Unique and Unusual Transactions in the chapter 4 appendix for more information on complex issues you may encounter and related questions you should be asking.
- Understand significant judgments and estimates used by management and their impact on the financial statements, such as fair-value accounting and related assumptions.
- Review new accounting and reporting requirements and assess how pending financial reporting and regulatory developments may affect the organization. The AICPA Not-for-Profit Section and website, as well as the IRS Charities and Nonprofits and FASB websites, and their related newsletters can help you stay current on NFP accounting and regulatory developments.
- Discuss executive compensation and succession planning for leadership and staff. Understand management incentives, perhaps through periodic discussions with the compensation committee, and assess their impact on the financial reporting process.

Issues Reports from Management

Audit committees should expect to receive communications from management regarding significant issues, critical accounting estimates, significant unusual transactions, and judgments that

- create controversy among members of the management team, or between management and the internal or independent auditors, or where there may be a lack of authoritative guidance or consensus in practice;
- have or will have a material impact on the financial statements;
- are or will be a matter of public interest or exposure;
- must be reported in an upcoming filing with an external body, and management is unclear or undecided on its presentation;

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- apply a new accounting standard. Note that the application of a new accounting standard may or may not be considered a significant issue, estimate, or judgment for the entity. However, the audit committee may request a briefing on the application of the new standard;
- apply to initial selection of or changes to significant accounting policies or their application in the current period;
- relate to the application of a standard in a way that is not consistent with general practice;
- relate to key controls over financial information that are being designed, redesigned, have failed, or otherwise are being addressed by the entity;
- are used for consultation with other accountants;
- relate to corrected or uncorrected misstatements to the annual audited financial statements.

Management's report to the audit committee concerning these matters should contain the following elements for a proper basis of discussion:

- Definition of Significant Issue, Critical Accounting Estimate, Significant Unusual Transaction, or Judgment. Define and summarize the issue as concisely and clearly as possible.
- Management's Position. Any disagreement among members of management should be identified as explicitly as possible, with brief explanations for each member's position taken.
- Relevant Literature. Cite any professional literature or regulatory requirements addressing the issue. If no literature is available, define industry practice. In the case of a developing area where there is neither accepted industry practice nor other sources to support and refute these positions, that should be reported. If there was a choice on the accounting treatment, disclose that choice and how it was made.
- Risks. Identify and evaluate various risks (both good and bad) associated with the matter.
- Regulatory Disclosure (if applicable). State how management intends to address the issue in required filings with regulatory bodies as required by law (for example, insurance commissions, banking authorities, or others).
- Auditor's Position. If management has consulted with the independent auditors on this issue, state whether they agree with management's position and whether they have addressed the audit issues that might be associated with it. Otherwise, indicate that the auditors have not been consulted.
- Other Information Relating to This Significant Issue, Critical Accounting Estimate, Significant Unusual Transaction, or Judgment. Highlight other related and relevant information that has not already been included.

The following is a sample issues report from management.

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Sample Issues Report From Management

Define the Significant Issue, Critical Accounting Estimate, Significant Unusual Transaction, or Judgment:

In the organization's 2018 financial statements, a $500,000 contribution from a donor was reported in net assets with donor restrictions. No amounts were shown as released from restrictions during 2018. During 2019, the client determined that it should have released $200,000 from restrictions in 2018. Does a restatement for a change in classification of net assets require a restatement of the 2018 financial statements?

Management's Position:

Management is willing to restate 2018 financial statements if required by GAAP.

Relevant Literature:

AICPA Technical Questions and Answers (Q&A) section 6140.23, "Changing Net Asset Classifications Reported In a Prior Year"; FASB *Accounting Standards Codification* (ASC) 958-205-45-2; FASB ASC 250-10-45-23.

Risks:

Users of the 2018 financial statements saw understated net assets without donor restrictions and overstated net assets with donor restrictions.

Regulatory Disclosure:

This issue is not applicable.

Auditor's Position:

Q&A section 6140.23 states that individual net asset classes and the required disclosure of the nature and amounts of different types of donor-imposed restrictions, rather than only net assets in the aggregate (total net assets), are relevant in determining whether a not-for-profit entity's correction of net asset classifications previously reported in prior years' financial statements is an error in previously issued financial statements.

Per FASB ASC 250-10-45-23, "any error in the financial statements of a prior period discovered after the financial statements are issued or are available to be issued should be reported as an error correction, by restating the prior period financial statements."

Other Information Relating to This Item:

The auditors deemed the $200,000 to be a material amount and concluded a restatement is appropriate for the correction.

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Oversight of Internal Controls Over Financial Reporting (ICFR)

The audit committee's oversight responsibilities related to financial reporting (and compliance, as applicable) necessarily also include the oversight of related internal controls.

Audit committees need a basic understanding of internal controls and related requirements. See the Chapter 1 Appendix for a primer on internal control.

Internal Control Evaluation Requirements

For public companies, the Sarbanes-Oxley Act of 2002 (the Act) includes a requirement for management to (1) state its responsibility for establishing and maintaining an adequate internal control system over financial reporting, and (2) make an assessment, as of the end of the most recent fiscal year, of the effectiveness of the internal control system over financial reporting. Although not-for-profit entities are not subject to the Act, those charged with corporate governance in all organizations should ensure that management maintains and monitors the adequacy of the organization's systems of internal control and has plans in place to correct identified weaknesses in internal control. Implementing practices that are consistent with the Act is considered best practice and would strengthen corporate governance around financial reporting and related controls.

Auditors are required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of material misstatement. In making those risk assessments, the auditor considers internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control. The auditor may identify deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit.

The auditor may be engaged to report on the effectiveness of an entity's internal control over financial reporting under AU-C section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*). This section does not address an audit of internal control over financial reporting performed in accordance with AU-C section 940.

Audit Committee Responsibilities with Respect to ICFR

The audit committee should review with management and internal audit the internal control process along with the risk management and mitigation process. As previously discussed, the audit committee needs to review and understand material risks—particularly financial, financial reporting, compliance, and IT risks—and be comfortable that related controls are adequately designed and effectively operating.

The following illustrative list of responsibilities, which is not intended to be complete, includes both required duties and best practices for audit committee members related to ICFR oversight.

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- Assess the adequacy of the entity’s system of internal controls over financial reporting.
- Monitor management’s responses to the findings of internal auditors’ and independent auditor’s reviews of internal controls.
- Determine if the entity has adopted an internal control framework, such as COSO, in the establishment of their system of internal controls.
- Gain an understanding of any identified material weaknesses and assess the adequacy of corrective action taken.
- Review management issues reports and letters from and disagreements with independent auditors
- Review audit adjustments made and waived.

The audit committee also needs to be advised and updated regularly on the independent auditor's consideration of internal control as part of the financial statement audit and should have a clear understanding of the expected outcome. In the event the auditor identifies internal control deficiencies, management should have a plan already in place to correct the weakness(es), and the audit committee should already be engaged in review and approval of that plan.

In the event that a not-for-profit is faced with an adverse report on internal controls related to financial reporting, audit committees should take steps to ensure that any material weaknesses are swiftly corrected and assure stakeholders that appropriate corrective action has been taken.

Steps and Sample Questions to Gain an Understanding of the Weakness Identified

The following are steps an audit committee should take, including sample questions the committee might ask of management and internal auditors and independent auditors, in gaining an understanding an identified material weakness and getting comfortable that proper corrective actions are being taken.

Interview members of the management team, including the chief financial officer (CFO), controller, and other management, as necessary, closer to the situation, about the weakness(es). Consider asking the following questions in an executive session:

- Who identified the weakness (e.g., management, internal audit, independent auditors, or another third party), and in what context, such as routine internal audit or management review was it identified?
- What are the nature and root cause of the control failure?
- How long has the weakness existed?

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- What are the financial statement implications of the control failure? Are there regulatory or compliance implications? Will this weakness become public information? Are there reputational implications? Could the control failure have been the result of fraud?
- If the root cause is systemic, such as turnover, were other controls affected? Are there other controls in the area that may mitigate for the control that failed?
- What is management's plan and timing to correct the material weakness?
- Explore with the management team how much was known about the weakness(es) when the financial statements were prepared and management's certifications regarding those financial statements were made (if applicable):
  - Consider any implications to these financial statements in light of the material weaknesses noted.
- Inquire of management if they have considered other potential implications of the adverse report. For example, consider whether the adverse report could have an impact on:
  - Compliance with debt covenants
  - Federal funds or donations from other sources
  - Other parties that could have an interest in the entity
- In subsequent years, ask the management team for an update on the status of the current year weakness.
- Review with management its plan to communicate to key stakeholders (e.g., donors, board members, grantors, or employees) the results of the adverse opinion, if appropriate.

In executive sessions with the independent and internal auditors:

- Discuss the findings, implications, and recommendations with the independent and internal auditors.
- Determine whether the independent auditor's result is consistent with the result of management's assessment of internal controls.
- Collect information from the independent auditor based on his or her knowledge of internal controls and experiences with other clients:
  - Has the weakness been discussed with the entity in the past? Does management have proper tone at the top regarding internal controls?
  - Is this weakness a result of a unique situation at the entity?
  - Is this weakness a result of a unique situation in the industry?

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Steps to Ascertain that Proper Corrective Action is Being Taken

After meeting with the management team, those charged with governance, and the independent and internal auditors, address whether the weakness(es) could have resulted from an illegal act:

- Consider the need to conduct a formal investigation in the area to determine if the weakness(es) resulted from an illegal act.
- Consider the need to engage a forensic accountant/auditor to review the situation if any fraud or illegal activity is suspected.
- If an illegal act is suspected, work expeditiously to determine if such an act occurred. If confirmed, notify those charged with governance or other relevant parties.

Consult experts from outside the entity about the weakness(es) and the steps necessary to be taken to correct it or them.

Work with management to develop a plan to correct the weakness(es):

- Identify metrics that can be reported to internal and external parties on the progress being made in correcting the weakness(es).
- Discuss the plan to reassure key stakeholders about the findings and corrective action plans (if applicable).
- Discuss the communications plan for the business press who might be interested in the entity's plans to correct the weakness(es) noted (if applicable).

After successful correction of the internal control weakness, consider whether to engage the independent auditor to issue a separate report on the elimination of the weakness in internal control over financial reporting.

In subsequent years, ask the independent auditor for an update on the status of the current year weakness.

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Chapter 4 Appendix

Primer: Single Audits—Audits of Federal Funds

Overview

This tool is intended to help not-for-profit entities and their audit committees comply with the requirements and expectations of the Single Audit Act. Single audits involve three levels of requirements, generally accepted auditing standards (GAAS), Government Auditing Standards, and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Management and the audit committee should consider the information and questions in this tool as they work to ensure that the organization's policies and procedures for complying with Federal rules and regulations are present and functioning properly.

The Single Audit Act requires that nonfederal entities that expend $750,000 or more in federal awards during the entity's fiscal year have a single or program-specific audit in accordance with the provisions of the act's audit requirements. Expenditures include cash transactions, loans, loan guarantees, federally restricted endowment funds, and various other types of noncash assistance, such as interest subsidies.

A program-specific audit may be elected only when an auditee expends federal awards under one federal program (excluding research and development) and that federal program's laws, regulations, or grant agreements do not require the auditee to have a financial statement audit.

For an audit committee to meet its responsibilities, it is important to understand what a single audit encompasses. In a single audit, the auditor has the following objectives, which result in the issuance of certain auditor reports:

Audit of the entity's financial statements and report on the supplementary schedule of expenditures of federal awards

- Determine whether the financial statements of the auditee are presented fairly, in all material respects, in accordance with generally accepted accounting principles (GAAP) or other basis of accounting.
- Determine whether the schedule of expenditures of federal awards is stated fairly in all material respects in relation to the auditee's financial statements as a whole.

Compliance audit of federal awards

- Obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance for major programs; plan

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the testing of internal control over compliance for major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and perform testing of internal control as planned.

- Determine whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs.

Requirements and Responsibilities for Federal Awards

In addition to responsibilities related to financial reporting, a nonfederal entity has additional responsibilities as it relates to a single audit. A Uniform Guidance compliance audit is based on the premise that management must comply with federal statutes, regulations, and the terms and conditions of the federal awards it receives, as either a recipient or subrecipient.

A *recipient* is a nonfederal entity that expends federal awards received directly from a federal awarding agency to carry out a federal program. A *sub-recipient* is an entity that receives a federal award indirectly through a state or local government or another not-for-profit entity.

Under the guidance for single audits, a nonfederal entity that expends federal funds is responsible for the following:

- Identifying, in its accounts, all federal awards received and expended and the federal programs under which they were received
- Maintaining records that identify adequately the source and application of funds for federally funded activities
- Establishing and maintaining effective internal control over federal awards to provide reasonable assurance that the entity is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of the awards
- Evaluating and monitoring the entity's compliance with federal statutes, regulations, and the terms and conditions of federal awards
- Disclosing accurately, currently, and completely the financial results of each federal award in accordance with the requirements of the award
- Taking corrective action when instances of noncompliance are identified, including corrective action on findings of the compliance audit

Audit Committee Oversight

As part of the audit committee's oversight of federal awards, some of the questions to ask are as follows:

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- Has management identified all federal awards received and expended and the federal programs under which they were received, including as applicable, Catalog of Federal Domestic Assistance number and federal program title, the federal award identification number and year, the name of the federal awarding agency, and the name of the pass-through entity, if applicable?
- Have both awards received from pass-through entities and those provided to subrecipients been identified?
- Has management identified the federal statutes, regulations, and terms and conditions of each federal award to determine the entity's responsibilities related to compliance?
- Does the entity have a system of internal control over compliance with federal statutes, regulations, and the terms and conditions of the federal award related to federal programs?
- Does management evaluate and monitor compliance with federal statutes, regulations, and the terms and conditions of contracts and grant agreements on an ongoing basis?
- Have reasonable measures been taken to safeguard protected personally identifiable information and other information the federal awarding agency or pass-through entity designates as sensitive, or the nonfederal entity considers sensitive consistent with applicable federal, state, and local laws regarding privacy and obligations of confidentially?
- Is prompt action taken when instances of noncompliance are identified, including noncompliance identified in audit findings?
- Has the entity procured or arranged for the required audit under the Uniform Guidance such that the required reports will be submitted in a timely manner?
- If audit findings and questioned costs are identified as part of the audit, has the nonfederal entity prepared a corrective action plan?
- Is there a process to determine responses to, and implementation of, the corrective actions identified that will resolve current or previous findings, or both?
- Has a summary schedule of prior audit findings been prepared, if applicable?
- Was the data collection form and reporting package submitted electronically to the Federal Audit Clearinghouse within the required timeline? Both the auditee and auditor are required to complete certain portions of the submission. However, the recipient entity is legally responsible for the accuracy and timely submission of these forms even though auditor may assist the auditee with their submission.
- Has the entity appropriately monitored any subrecipients and has the entity reviewed the subrecipient's data collection form submission, which includes the subrecipient entity's single audit re-port. If there were any findings, were they addressed?

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The consideration of internal control over compliance for federal awards is an important aspect of over-sight. Some questions to ask related to this are:

- Does the entity have a system of internal control over compliance for federal awards that pro-vides reasonable assurance that the entity is managing federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards?
- Does the system of internal control ensure that transactions are properly recorded in order to pre-pare reliable financial statements and the required federal reports?
- Does the system of internal control over compliance function to monitor that transactions are in compliance with federal statues, regulations, and the terms and conditions of federal awards?
- Is the system of internal control over compliance functioning properly?
- Does the system of internal control over compliance provide for timely monitoring of its effectiveness and compliance with the applicable federal statutes, regulations, and the terms and conditions of the federal award?
- Does management monitor compliance and take timely action for correcting weaknesses in the design of system of internal control or its implementation?
- Has management evaluated any significant deficiencies or material weaknesses in internal control and taken prompt action to address such deficiencies?

Auditor Responsibilities in a Single Audit

The audit committee should be aware of the responsibilities of the auditors of recipients of federal awards and their reporting responsibilities to the not-for-profit entity. Significant auditor responsibilities related to a single audit include the following:

- Plan and conduct the audit in accordance with generally accepted auditing standards (GAAS), generally accepted government auditing standards (GAGAS), and the Uniform Guidance
- Identify major programs to be tested and reported on
- Determine which compliance requirements have a direct and material effect on each major pro-gram to determine which compliance requirements should be tested
- Obtain an understanding of internal control over compliance and perform tests of the operating effectiveness of those controls as it relates to major programs.
- Obtain sufficient, appropriate audit evidence to form an opinion about whether the auditee complied with the direct and material compliance requirements for major programs

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- Perform follow-up procedures on previously identified audit findings issue reports based on the auditor's testing

Independent Auditor Reporting

The independent auditor's reports may be in the form of either combined or separate reports. The auditor's reports will state that the audit was conducted in accordance with Government Auditing Standards and the Uniform Guidance, as appropriate, and include the following:

- An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in accordance with GAAP (or other basis of accounting) and an opinion (or disclaimer) as to whether the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole
- A report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements
- A report on compliance for each major program and a report on internal control over compliance
- A schedule of findings and questioned costs

Awarding Agencies

Awarding agencies have the following responsibilities in the audit process:

- Ensure that audits are completed and filed on time.
- Provide technical assistance to auditors and recipients who may have audit questions.
- Follow up on audit findings to ensure the entity takes appropriate and timely corrective action.
- Provide OMB with annual updates to the Compliance Supplement for the programs it is responsible for.

Conclusion

The specific requirements and responsibilities of federal agencies and nonfederal recipients are detailed in the Uniform Guidance, which is available at www.ecfr.gov. Federal agencies are required to apply the provisions of the Uniform Guidance to all nonfederal entities that receive and expend federal awards either directly from federal awarding agencies or as subrecipients who receive federal awards from a pass-through entity. Additional information is available from the United States Chief Financial Officers Council website, www.cfo.gov/cofar.

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Primer: Unique Transactions and Financial Relationships

Some transactions and financial relationships put an entity at increased financial risk. Generally accepted accounting principles provide guidance about how an entity should account for and report these transactions and relationships so as to fully inform the entity's constituents. The audit committee should be aware of these transactions, relationships, and circumstances that may require recognition in the entity's financial statements and verify that those transactions and events have been accounted for and disclosed properly.

The following information is intended to help audit committees understand the nature of and reason for these transactions and relationships so they can assess the appropriateness of management's accounting treatment and adequacy of management's disclosures in the entity's financial statements.

Audit committees should be aware of the following common transactions and relationships:

- Related party considerations (significant contributions or services provided by or contracts with directors).
- Relationships with legally separate entities.
- Joint ventures. FASB *Accounting Standards Codification* (ASC) 958-805, *Business Combinations* and 958-810, *Consolidation*, provide specific guidance on financial reporting for joint ventures and consolidations.
- Tax-exempt financing.
- Investments in derivative financial instruments.
- Securities lending transactions.

The following sections provide background about these types of transactions and relationships.

Related Party Considerations (Significant Contributions or Services Provided by or Contracts with Directors)

The audit committee should determine the existence of significant related party relationships and transactions with such parties. Transactions with directors of the entity's governing board may have to be disclosed under the FASB ASC 850, *Related Party Disclosures*.

Significant "related party" considerations should be evaluated and reviewed by the audit committee and possibly reported on a Form 990-EZ, Form 990, or Form 990-PF. Note that the related party disclosure requirements are enhanced from an Internal Revenue Service perspective as compared to a GAAP perspective. For example, the IRS provides no de minimis exception for the disclosure of private inurement (excess benefit/self-dealing) transactions, but there is a limiting materiality element for GAAP-based financial statements. This may mean that

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more disclosures are necessary on a Form 990 than in a nonprofit's audited financials. Some states have exhibited a heightened concern about whether the governing board members of not-for-profit entities are meeting their stewardship responsibilities, particularly if potential conflicts exist between the governing board members' financial interests and their duties as board members.

The entity should have an increased sensitivity when it enters into business relationships with board members and other insiders (officers and key or highly compensated employees, related parties, and former insiders) of the nonprofit. It also should have appropriate controls for:

- addressing potential conflicts of interest that could arise in related-party transactions (for example, the implementation of a conflict of interest policy and subsequent monitoring under the provisions of such) and
- ensuring that such transactions are disclosed to, approved by, and contemporaneously documented by the board.

Additionally, a not-for-profit entity should determine whether it employs any family members of key employees or officers. These relationships should be fully disclosed on an annual basis to the board of directors and reported externally, as applicable.

Relationship With Legally Separate Entities

Not-for-profits create separate entities for a variety of reasons. Some of the more common reasons include achieving greater efficiency in financing and administering debt backed by revenue-generating activities and providing additional services that may not have been envisioned when the entity's charter was written.

Financial reporting standards require an entity to determine when a separate organization should be included as part of the entity's financial reporting organization through consolidation. Although detailed and complex analyses ultimately determine which legally separate entities should be consolidated, organizations are generally included if they are controlled by the entity. In the not-for-profit world, the concept of economic interest is coupled with control in determining consolidation. Control can be determined either through a sole membership (parent-child relationship) or controlling votes by the board of directors.

Unrelated Business Income and Unrelated Business Income Tax (UBIT)

Some not-for-profit entities may generate income unrelated to the furthering of their mission and exempt purposes. Entities should develop a process to determine whether any of their income could be classified as unrelated business income, and if so, determine whether such unrelated business income qualifies for an exception/exclusion or is subject to taxation at the prevailing corporate tax rates, Any unrelated activities should be properly reported on a Form 990-T and timely filed with the IRS. It is important to note that under-reported unrelated business income likely will lead to an uncertain tax position for the nonprofit and a disclosure requirement

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pursuant to FASB ASC 740 if material. Refer to the Not-for-Profit Section's UBIT resources to learn more.

Joint Ventures

A *joint venture* is a legal entity that results from a contractual arrangement to pool resources and share the costs, risks, and rewards of an activity with other organizations. In a joint venture, each of the participants retains an ongoing financial interest, financial responsibility, or both.

Joint ventures typically are accounted for using the equity method of accounting. Under the equity method, the entity recognizes its respective share of the joint venture's income or loss and any changes in the value of the joint venture.

FASB ASC 323, *Investments—Equity Method and Joint Ventures*, provides specific guidance on financial reporting under such circumstances.

Tax-Exempt Financing

Many not-for-profits enjoy the benefit of tax-advantaged borrowing through the use of tax-exempt bonds. In the typical tax-exempt bond transaction, a conduit governmental agency issues bonds carrying interest rates below those of taxable bonds on behalf of the not-for-profit entity. Upon issuance, the bonds are purchased by an underwriter and sold to institutional investors, the general public, or both. The conduit agency simultaneously lends the proceeds to the not-for-profit entity at repayment terms specified in the loan agreement and the bond indenture.

Some tax-exempt bonds are issued with credit enhancement, giving the investors in such bonds assurance regarding their credit worthiness. Not-for-profit entities use credit enhancement to lower the overall cost of borrowing. Bond insurance and letters of credit from highly rated financial institutions are two such enhancements. In such cases, the credit enhancement provider usually requires certain fees, financial covenants, collateral, or any combination of such, from the not-for-profit entity in return for providing the enhancement.

To ensure success, the typical tax-exempt bond transaction involves the services of many experts. For example, the not-for-profit entity should employ the services of competent borrower's counsel having an excellent track record in transactions similar to the proposed deal. The not-for-profit entity will also need a highly experienced underwriter to help structure the deal, guide the process, and eventually sell the bonds.

Often, a not-for-profit borrower will engage a financial consultant to assist in developing financial pro-formas. In consultation with the conduit governmental issuer, the not-for-profit entity will select the bond counsel, whose role is to protect the interests of bondholders and certify the bonds as tax exempt. If credit enhancement is part of the plan, the not-for-profit entity will select an appropriate provider and negotiate the best possible credit deal. In addition, the conduit issuer and the credit enhancement provider will be represented by legal counsel. The fees for all

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these professionals are normally paid by the not-for-profit borrower and become part of the bond issuance costs.

Bond issuance costs generally should not exceed 2 percent of the total face amount issued. Additionally, the repayment term for tax-exempt bonds usually cannot exceed the average estimated economic life of the project costs funded by such bonds, and proceeds from the tax-exempt financing generally cannot be used to fund costs for which specific resources have been dedicated, such as donor-restricted contributions.

Many regulatory issues are operative in issuing tax-exempt bonds. The audit committee of a not-for-profit tax-exempt bond borrower should obtain assurance from management, competent advisors, or both that all applicable laws and regulations have been observed. Specific consideration should be given to the following:

- State laws governing issuance and use of tax-exempt bond proceeds. Although tax-exempt borrowing is allowed by federal law (under certain circumstances), each state must enact enabling legislation to designate conduit issuers and regulate the use of tax-exempt bond proceeds. For example, some states may restrict the use of tax-exempt bond proceeds to housing programs.
- IRS Regulations concerning the following:
  - Use of proceeds. IRS Regulations include specific qualified uses for tax-exempt bond proceeds. Generally, proceeds must be used primarily for capital projects, with certain exceptions. No more than 2 percent of proceeds may be used to finance issuance costs.
  - Qualifying borrowers and issuers. Issuance of tax-exempt bonds and use of the proceeds therefrom are restricted to certain types of entities. The IRS will ensure that the substantial benefits provided by tax-exempt borrowing accrue only to the intended beneficiaries.
  - Report filing. At issuance, the not-for-profit borrower must file IRS Form 8038, "Information Return for Tax Exempt Private Activity Bond Issues." In addition, throughout the life of the bonds, the not-for-profit borrower must periodically file additional forms with the IRS and complete Schedule K of the Form 990.
  - Arbitrage rebate. IRS arbitrage rebate Regulations ensure that not-for-profit borrowers use bond proceeds in a timely manner in compliance with the applicable Regulations. These Regulations are complex, usually requiring the assistance of special experts to ensure compliance. If a not-for-profit borrower earns a profit from investment of tax-exempt bond proceeds in taxable securities and fails to timely use this arbitrage to pay project costs, IRS arbitrage rebate Regulations require the not-for-profit entity to return (or rebate) the excess investment earnings to the U.S. Treasury or face severe penalties.

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- SEC Regulations concerning public debt offerings. Such Regulations include compliance requirements regarding initial offering statements, the types and quality of information provided to the public, and the veracity of statements made concerning the bonds. Additionally, under SEC Rule 15c2-12, issuers of fixed-rate tax-exempt debt are required to make prescribed secondary market disclosures until the bonds are retired.

In short, due to the complexity of tax-exempt bond transactions, it is imperative that an audit committee monitor the entity's compliance with the applicable laws and regulations, both for the initial offering and on an ongoing basis after the debt has been issued. The committee should review the deal points of a proposed tax-exempt bond transaction well before the anticipated issuance date.

Derivatives

An entity's investment policies may allow investments in financial instruments that are not routine or actively traded in the market. Routine or actively traded financial instruments, such as repurchase agreements, government agency debt securities, and money market funds, have some degree of risk. However, derivatives, which are financial instruments or contracts that have unique characteristics underlying their ultimate investment yield, typically have much greater risk.

When an entity holds derivatives, these financial instruments are included in the amount of investments reported in the entity's financial statements, at the instrument's market value, referred to as its fair value. In many cases the derivative may not be actively traded in the market, or its fair value may be based on complicated, unknown events. For this reason, the notes to the financial statements should include the following:

- The entity's objectives for holding or issuing derivatives
- The context needed to understand those objectives
- The strategies for achieving those objectives
- Information regarding the entity's volume of derivative activity

In addition to many other details, the disclosure should also provide information about the entity's policies related to the various types of derivative instruments and a description of the items or transactions for which risks are hedged.

FASB ASC 815 is the source for technical guidance about accounting for derivatives and required reporting disclosures.

Securities Lending Transactions

Sometimes, entities have large amounts of long-term investments in their portfolios. If an entity wants to earn additional income, it might lend some securities to brokers or financial institutions

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that need to borrow those securities to cover a short position (that is, they sold a security without owning it) or to avoid a failure to receive a security it purchased for delivery to a buyer. In these transactions, the entity transfers its securities for collateral, which may be cash or other securities, and agrees to return the collateral for its original securities at some time in the future.

When an entity lends its securities, it reports them as pledged assets in its financial statements. If the entity receives cash as collateral on the securities lending transactions, makes investments with that cash, or can sell the securities it received as collateral, these amounts are also reported as assets in the financial statements. Of course, because the collateral must be returned in the future, the entity also reports a liability for these transactions in the financial statements. In addition, the notes to the financial statements should disclose the following:

- The policy for requiring collateral or other security
- The carrying amount and classification of assets not reported separately in the statement of financial position and associated liabilities, as well as the relationship between those assets and liabilities
- The fair value of collateral and the amount sold or repledged as of the statement date in situations in which the transferor has received collateral that it is permitted to sell or repledge, as well as information about the sources and uses of that collateral

FASB ASC 860, *Transfers and Servicing*, provides specific guidance on accounting and reporting for securities lending transactions.

Questions Regarding Unique Transactions and Special Relationships

The sample questions included in this tool are a starting point for understanding unique transactions and special relationships that may be present in a not-for-profit entity. Audit committee members should answer the following questions in discussion with management and consultation with the independent auditor or other experts as needed.

	Interviewer Notes
Significant Contracts With Directors	
1. Has the entity entered into any contracts or agreements with any board director for providing goods or services to the entity? If so, describe the details of the arrangement.	
2. For any such agreements, review how the agreement was disclosed to and approved by the board.	
3. Was the agreement reviewed in connection with the entity's conflict of interest policy, if one exists?	

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4. Review the proposed tax-exempt bond transaction deal points, including, for example, use of funds, bond structure, interest rate mode, credit enhancement, covenants, collateral, repayment terms, and source of repayment funds.	
Legally Separate Entities	
1. Has the entity created, authorized, or become aware of any legally separate organizations that have financial relationships with the entity? If so, describe the details of the arrangement.	
Joint Ventures	
1. Has the entity entered into any agreement with another organization to share resources, costs, and risks for providing goods and services or other purposes? If so, describe the details of the arrangement.	
2. For any such agreements, describe how the entity accounts for its participation and how the effects of such participation are displayed or disclosed in the financial statements.	
Tax-Exempt Bond Offerings	
1. Review the process for selection and qualifications of expert advisors engaged to assist with the tax-exempt bond transaction including the following:	
a. Borrower's counsel	
b. Financial consultant underwriter	
c. Bond counsel	
d. Credit enhancement provider	
e. Arbitrage rebate compliance consultant	
f. Bond trustee	
2. Review the procedures management will implement to ensure compliance with state and federal laws and IRS and SEC regulations governing tax-exempt bond transactions. Specifically, how will management protect the entity from the risk of noncompliance default?	
3. Review management's proposed accounting treatment of issuance costs and review the tax-exempt bond footnote disclosure in the financial statements.	
4. Review the initial offering statement. Discuss compliance with SEC regulations including Rule 15c2-12 disclosures, if applicable.	

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5. Review IRS Form 8038, "Information Return for Tax Exempt Private Activity Bond Issues." Discuss ongoing compliance with IRS regulations with respect to arbitrage rebate rules.	
6. Review all debt covenants resulting from the tax-exempt bond transaction and procedures to ensure compliance on an ongoing basis. Review financial statement footnote disclosure of material debt covenants.	
7. Review annually with management any ongoing reporting requirements related to outstanding debt, including Form 990 Schedule K reporting.	
Derivatives	
1. Review the entity's policies for investing in derivative financial instruments. Are there any restrictions regarding the type, maturity length, or percentage of total portfolio?	
2. Review how management has valued its derivatives for financial statement presentation. Discuss the types of risks these investments have and how management has decided to manage those risks.	
Securities Lending	
1. Review the entity's policies for entering into securities lending agreements.	
2. Review how securities lending transactions have been accounted for and whether they have been included in the entity's financial statements. Include whether collateral can be used to purchase securities, whether maturities of original and collateral securities match, and the credit risk associated with the securities.	
Other Notes and Questions:	

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Analytical Procedures for Not-for-Profit Entities

The ratios presented in this tool are at best a guide for organizations to use, and audit committees should understand what they mean for their specific entities. No two not-for-profit entities are the same; therefore, using a ratio or benchmark that is significant for one entity may not have the same significance for another. It is important not to view standalone ratios as either "good" or "bad" based on whether they are high or low or compare two not-for-profit entities that conduct different activities, have different infrastructure, or are in different points in their lifespan. With that in mind, the metrics and indicators that follow are most helpful if used consistently and compared from period to period within the same entity.

Financial Health Indicator

Liquid reserves without donor restrictions

This ratio compares the liquid reserve without donor restrictions to average monthly expenses. It indicates how long the entity can continue its operations by using only its reserves without donor restrictions; for example, how long before the entity starts having cash flow challenges.

$$\frac{\text{Net assets without donor restrictions} - \text{non-current assets} + \text{debt related to fixed assets}}{\text{Average monthly expenses}}$$

Non-current assets include endowment assets, fixed assets, and other assets whose full value will not be realized during the accounting year.

The result should be interpreted based on whether the entity receives its income before or after it pays its expenses. For example, if the entity is funded 100 percent by governmental grants that are paid in arrears, it may take the entity 2–3 months to recover its costs. To avoid cash flow problems, the entity should have a ratio of greater than 2–3 months.

Stewardship Indicator

Overhead

This ratio can be used internally and externally. Internally, it shows how much the entity spends to support each dollar of program expense. Externally, it shows how much of the entity's resources are invested in its infrastructure (supporting activities) versus program activities.

Internal overhead ratio:

$$\frac{\text{Administration expenses} + \text{fundraising expenses} + \text{membership development expenses}}{\text{Program expenses}}$$

External overhead ratio:

$$\frac{\text{Administration expenses} + \text{fundraising expenses} + \text{membership development expenses}}{\text{Total expenses}}$$

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The result should be interpreted based on the type of support the entity receives and where the entity is in its lifespan. For example, if the entity receives all of its support from a few large government or private foundation grants, its fundraising expenses would be very low and therefore this ratio would be low. On the other hand, if the entity receives most its support from individual contributions through conducting events, mail campaigns, direct mail, and similar activities, its fundraising expenses will be higher and therefore this ratio would be high.

In addition, many not-for-profits are required to expend funds for many mandated regulations and compliance requirements that are not reimbursed through their programs. These unfunded mandates also contribute to higher administrative costs. The appropriate amount of overhead that should be incurred will depend on each entity's facts and circumstances.

Fundraising Efficiency

This ratio shows how much is spent for each dollar raised. The result should be interpreted based on the type of fundraising, lifespan of the fundraising activity, and goals of the entity.

$$\frac{\text{Total dollars raised (with and without donor-imposed restrictions)}}{\text{Fundraising expenses}}$$

A high ratio may indicate that the entity or its fundraising efforts is new; the type of fundraising activity is labor-intensive, such as direct mail, canvasing, and similar activities; or that the fundraising efforts are ineffective.

A low ratio may indicate that the entity has been consistent in its fundraising efforts; the entity has a broad donor base; the type of fundraising activity is not labor-intensive, such as grant writing; or that most of fundraising effort is performed by volunteers.

Other Ratios and Metrics

Not-for-profit entities may use other ratios that are meaningful to them and to the industry as a whole. These may include the following:

- Current ratio
- Debt service coverage ratio
- Ratio of program revenue by type (or funding source) to total revenue
- Government revenue to total revenue
- Number of days to close the books on a month end and at year end
- Number of journal entries used in the month-end and year-end closing

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Chapter 5: Internal Audit Function and Financial Statement Audit Oversight

This chapter covers audit committee responsibilities related to oversight of the independent audit and auditor, internal audit and the chief audit executive, and peer review. To be effective in carrying out its responsibilities the audit committee should encourage open and continuous communication with internal auditors and independent auditors so that all parties feel comfortable communicating control weaknesses and other matters to the audit committee.

Oversight of the Independent Audit and Auditor

As the audit firm's "client." That is, the audit committee is responsible for hiring, evaluating, and firing; pre-approving services; reviewing fees; and communicating regularly with the independent auditors. The following is an illustrative list of audit committee responsibilities related to oversight of the independent audit and auditors. This list is not intended to be complete and includes both required and best practices for audit committee members.

- Review audit plan and scope of audit to be conducted by the independent auditor.
- Provide pre-approval of all audits, permitted non-audit services, and proposed fees.
- Appoint or replace the independent auditor, including the periodic rotation of the audit partner.
- Assess the performance and independence of the independent auditor annually.
- Meet periodically with tax, IT, actuarial, and other specialists.
- Review the results of the audit and any related internal control letter and management letter.
- Upon completion of the audit, review and discuss the following with the independent auditor:
    - Any material risks and weaknesses in internal controls identified by the independent auditor
    - Any restrictions placed on the independent auditor's scope of the activities or access to requested information
    - The adequacy of the entity's accounting and financial reporting process
    - Any recommendations made
- Solicit observations on staff skills, qualifications, and performance related to audited functions.

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- Report to the board on the committee's activities and recommend the results of audit findings for approval.
- Oversee corrective actions implemented to address issues identified in the required communication and management letter.
- Review audit plans for coming year and discuss with independent audit firm and internal audit personnel.
- Understand and evaluate how the audit firm plans and conducts the audit, including the engagement team composition, training and technical competency, and quality control procedures.
- Evaluate the audit firm's communication quality and timeliness, with both the audit committee and management.
- Review the audit firm's management letter and recommendations therein.
- Assess the audit firm's attention to the critical nature of independence from management and freedom from bias.
- Assess the appropriateness of the audit fee, making sure it is neither too high for the scope, complexity, and depth and frequency of communication; nor so low as to create pressures that could affect audit quality.

Oversight of the Internal Audit Function

Audit committees should ensure that the entity maintains an effective internal audit function. An internal audit function works to evaluate and improve internal control effectiveness. It must be noted that many small not-for-profit entities cannot afford a full internal audit function. As a best practice, some smaller not-for-profit entities contract with another CPA firm (independent of the firm engaged to perform the annual financial statement audit) or another independent service provider to administer periodic internal audit services in designated higher risk areas, rendering reports and discussing their findings with the audit committee.

The audit committee, including the chief audit executive (CAE), has the responsibility to oversee and evaluate the internal audit function. This includes ensuring the internal audit function is independent and objective so it can effectively provide the audit committee with an unbiased assessment on the state of the entity's risk, control, governance, and monitoring activities. In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the internal audit function and obtain input from others in the entity including management and independent auditor. See the chapter 5 appendix for sample questions audit committees can use when evaluating the performance and effectiveness of the internal audit function.

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The following is an illustrative list of audit committee responsibilities related to oversight of the internal audit function. This list is not intended to be complete and includes both required and best practices for audit committee members.

Internal Auditing Standards

The Institute of Internal Auditors (IIA) establishes standards for the internal audit profession and provides certifications in internal auditing. The International Standards for the Professional Practice of Internal Auditing (standards) provide guidance for the conduct of internal auditing at both the organizational and individual auditor levels. Internal audit functions that commit to adhering to these standards are required to establish a Quality Assurance and Improvement program that includes both ongoing and periodic internal quality assessment reviews (QARs) and undergo an external QAR a minimum of once every five years.

- Approve the internal audit department charter.
- Evaluate the adequacy of the internal audit department's size and budget, as well as its support from executive leadership.
- Understand the structure, objectives, and responsibilities of the internal audit department.
- Ensure that the internal audit department follows the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and maintains an effective quality assessment and improvement program.
- Concur in the appointment of the CAE.
- Review the internal audit department's planning and risk assessment process.
- Review and approve the internal audit department's annual (or periodic) audit plan and scope of audits to be conducted.
- Assess or participate in the selection, evaluation, termination, and compensation decisions for the CAE and internal audit staff, as well as any considerations or decisions regarding outsourcing.
- Conduct evaluations of the internal auditors and CAE.
- Gain comfort that the CAE and internal audit department staff's independence and technical proficiency are sufficient to perform their duties effectively.
- Ensure that the CAE reports functionally to the audit committee and administratively to senior management such as the CEO.
- Discuss succession planning for the CAE and staff.

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- Review internal audit findings and management's planned follow-up and corrective actions thereon.
- Monitor management's implementation of corrective action plans developed in response to internal audit results.

See the chapter 5 appendix for questions to consider when evaluating the internal audit team.

Chief Audit Executive Oversight

To assure that the internal audit function promotes the effectiveness of an entity's internal control structure, care must be taken in hiring the right Chief Audit Executive (CAE). The CAE should not only have the necessary technical expertise, but also meet other requirements, such as industry experience, temperament, integrity, management and human relationship skills.

In most entities, the CAE will report functionally to the audit committee and administratively to a senior executive of the entity, such as the CEO. This is a recommended best practice.

As previously noted, a critical activity of the audit committee is to be involved in the hiring of the CAE of the company. Given the CAE's high degree of interaction with the audit committee, the audit committee should be comfortable working with this person.

CAE Qualifications

When evaluating the qualifications of candidates for a CAE position, the following competencies should be considered:

- CPA with active status, and strong technical skills in accounting and auditing
- Experience conducting independent audits in accordance with professional standards
- Significant experience (10 years or more) in a management role, and possibly an advanced business degree such as an MBA
- Attainment of (or ability to attain within a reasonable period following appointment) the Certified Internal Auditor® (CIA®) designation, demonstrating a strong understanding of the roles and responsibilities of internal audit, the Institute of Internal Auditor's International Professional Practices Framework, and audit technical skills
- Experience preparing report for senior management recommending corrective action
- Experience communicating results of audits and investigations to boards or audit committees (or both)
- Knowledge and ability to remain abreast of current industry and professional auditing standards
- Ability to evaluate situations

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- Good judgment
- Strength of character
- Business acumen and understanding of the organization's business
- Excellent verbal and written communication skills
- Critical thinking skills
- Excellent facilitation, problem-solving, and consensus building skills
- Highest level of ethics and integrity
- Ability to develop relationships with members of senior management
- Highest level of quality and professionalism
- Excellent people management skills

See the chapter 5 appendix for a sample list of questions that audit committees can use when hiring the chief audit executive.

In addition to the best practices previously discussed, the audit committee should assess the effectiveness of coordination and communication between internal audit and independent audit activities and personnel to ensure that appropriate measures are taken to identify material financial reporting errors and weaknesses and deficiencies in internal control.

For additional questions to consider regarding the effectiveness of the internal audit function and financial statement audit, see the related tools in the chapter 5 appendix.

Required Communications from Independent Auditors

The following paragraphs discuss the types of communications audit committees should expect to receive from auditors.

Auditor Responsibilities and Terms of Engagement

Auditors are required to communicate their responsibilities under generally accepted auditing standards (GAAS). It is important for the audit committee to understand what an audit is and what it is not. The auditor's responsibilities and management's, objectives and limitations of the audit, and terms of the engagement are established with the audit committee in an engagement letter. Although not required, some audit committees may consider having the audit committee chair sign the engagement letter after committee approval.

The audit committee should also be aware of any additional services provided by any sector of the independent audit firm (for example, information technology consulting). To ensure this

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awareness, many not-for-profit entities require audit committee approval prior to all such engagements.

Audit Scope and Timing

Auditors should communicate an overview of the planned scope and timing of the audit. This overview may include the following:

- How the auditor plans to address significant risks of misstatement, whether due to error or fraud
- The approach for internal control relevant to the audit including, when applicable, whether the auditor will express an opinion on the effectiveness of internal control over financial report
- If applicable, the extent to which the firm plans to use the work of entity internal auditors in obtaining audit evidence
- The application of materiality in the context of the audit

Matters Relevant to the Audit

Auditors should ask the audit committee whether it is aware of matters relevant to the audit including, but not limited to the following:

- Violations or possible violations of laws or regulations
- Risks of material misstatement
- Fraud risk, including actual, suspected, or alleged fraud affecting the entity

Although not required, an audit firm may choose to seek a representation letter from the audit committee addressing such matters.

Illegal Acts

The auditor has the responsibility to make sure the audit committee is adequately informed about illegal acts that come to the auditor's attention, including the circumstances of such acts and their effects on the financial statements.

What is an illegal act for purposes of this communication? GAAS defines *illegal acts* as "violations of laws or government regulations." Illegal acts do not include personal misconduct by the entity's personnel unrelated to their business activities."

Fraud

GAAS requires that the independent auditor bring any evidence of fraud to the attention of the appropriate level of management (generally seen as one level higher than the level at which a

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suspected fraud may have occurred), even in the case of an inconsequential fraud, such as a minor defalcation by a low-level employee. The independent auditor should reach an understanding with the audit committee regarding nature and scope when an inconsequential fraud committed by a low-level employee should be brought to the audit committee's attention.

Fraud involving senior management, and any fraud, whether caused by senior management or other employees, that causes a material misstatement of the financial statements is required to be reported to the audit committee by the independent auditor. It is best practice for the auditor to disclose any perceived fraud to the audit committee, regardless of materiality, to ensure management's commitment to a sound internal control environment.

Significant Findings or Issues from the Audit

Auditors should communicate their views about qualitative aspects of the entity's significant accounting practices, including accounting policies and estimates as well as financial statement disclosures. When applicable, auditors should explain why they consider an accounting policy that is acceptable under the accounting framework to be inappropriate for the entity's circumstances and how they arrived at their conclusions regarding the reasonableness of accounting estimates.

Auditors should also communicate any significant difficulties encountered during the audit, any disagreements with management, and any other findings or issues deemed relevant or significant to the audit committee's oversight of the financial reporting process. These items may include but are not limited to significant delays in management providing required information, the unavailability of expected information, restrictions imposed on the auditor by management, or management's unwillingness to provide information about its plans to deal with the adverse effects of conditions that lead auditors to believe there is substantial doubt about the entity's ability to continue as a going concern.

Auditors should also inform the audit committee about all corrected and uncorrected misstatements arising from the audit that could, in the auditor's judgment, have a significant effect on the entity's financial reporting process.

Internal Control Matters

The auditor should communicate in writing to management and the audit committee all significant deficiencies and material weaknesses in internal control identified during the audit, regardless of whether they were remediated.

When a significant matter is discussed with an individual member of those charged with governance, such as the chair of an audit committee, the auditor may summarize the matter in later communications so that all of those charged with governance have full and balanced information.

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These matters should be discussed with the audit committee because they represent significant deficiencies in the design or operation of the internal control system which could adversely affect the entity's ability to initiate, record, process, and report financial data fairly in the financial statements.

Timing of Auditor Communications

Audit committee communications should be made in a timely manner and prior to the issuance of the auditor's report. The appropriate timing of a particular communication to the audit committee depends on factors such as the significance of the matters and corrective or follow-up action needed. Many, however, consider it a "best practice" to also have the audit committee meet with the auditors annually, during the audit planning process.

Peer Review Considerations

The following discussion will help audit committee members understand the context of peer review and why it is important to the audit committee.

Peer review is required by AICPA membership requirements, most state boards of accountancy, and the Government Accountability Office (GAO) if a firm audits an organization that receives certain amounts of federal funding.

A peer review of a CPA firm can be used by an audit committee as a tool to assess whether a CPA firm

- has a system of quality control for its accounting and auditing practice that has been designed to meet the requirements of the AICPA's Statements on Quality Control Standards (SQCSs), and
- is complying with that system of quality control.

The AICPA's standards regarding quality control provide requirements in the areas of auditor independence, integrity, and objectivity; audit personnel management; acceptance and continuance of audit clients and engagements; audit engagement performance; and firm quality control monitoring.

A CPA firm will engage another CPA firm to perform the peer review. However, the selected reviewer should be independent of the CPA firm, qualified to perform the review, and approved by the administering entity—typically the state CPA society in the state where the firm's main office is located. Peer reviews only include an evaluation of the CPA firm's non-SEC practice.

It is a common misconception that a peer review evaluates every engagement audited by a CPA firm. A peer review is performed using a risk-based approach. The scope of a peer review does not include every engagement conducted by a firm. In addition to other procedures performed, a peer reviewer selects a cross-section of the firm's engagements to provide a

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reasonable basis for determining whether the firm's system of quality is designed in accordance with professional standards and whether the firm is complying with it. While the scope of a peer review does include reviews of all key areas of the engagements selected for review, because not all engagements are reviewed, it is possible that the review would not disclose all weaknesses in the system of quality control or all instances of non-compliance.

Peer Review Reports

The three types of peer review report opinions are pass, pass with deficiencies, or fail:

1. A *pass* report should be issued when it is concluded that the firm's system of quality control for the accounting and auditing practice has been suitably designed and was complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
2. A report rating of *pass with deficiencies* should be issued when the firm's system of quality control for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.
3. A report with a peer review rating of *fail* should be issued when significant deficiencies exist and the firm's system of quality control is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, or the firm has not complied with its system of quality control to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

If deficiencies are found, the firm is expected to identify and take corrective measures to prevent the same or similar types of deficiencies from occurring in the future. Such measures could include making appropriate changes in the firm's system of quality control or having personnel take additional continuing professional education courses in specified areas. These measures should be described in a letter addressed to the administering entity's peer review committee, responding to the deficiencies or significant deficiencies and related recommendations identified in the report. In reviewing the response to the deficiencies noted in the report, the peer review committee may ask the firm to agree to certain other actions (referred to as *corrective actions*) it deems appropriate in the circumstances, such as the submission of a monitoring report, a revisit by the reviewer, or joining an applicable audit quality center.

During the peer review, if a reviewer finds a matter that does not rise to the level of a deficiency, the reviewer will complete a Finding for Further Consideration (FFC) form. The reviewer will make a recommendation to the firm to correct the finding and the firm will be asked to respond. The administering entity's peer review committee will evaluate whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible. The peer

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review committee will determine if a finding should require an implementation plan from the reviewed firm in addition to the plan described by the firm in its response to the findings on the FFC form.

The audit committee should request a copy of the auditor's most recently accepted peer review report and discuss these documents with the auditor. If a report receives a rating of *pass with deficiencies* or *fail*, the audit committee should discuss the reasons as part of its assessment of whether it should engage or continue to engage the auditor.

Questions for the Auditor Regarding Peer Review

The following tool contains questions that the audit committee should consider asking its auditors to gain a better understanding of the firm's peer review experience.

Question	Yes	No	Comments
1. Has the firm previously or currently been subject to peer review? If not, please explain.	___	___	
2. Were there any deficiencies or finding for further consideration noted as part of the review? Explain what the deficiencies or findings mean.	___	___	
3. Does the firm's letter of response demonstrate that the firm is committed to making the changes necessary to improve its practice? If not, please explain.	___	___	
4. Was the peer review report a rating of pass with deficiencies or fail? Explain.	___	___	
5. Was our entity's audit selected for review during the peer review? If so, were any matters from our audit noted? Explain.	___	___	
6. Did our audit's engagement partner (and/or other key engagement team members) have other audit engagements selected for review during the peer review? If so, were any matters noted?	___	___	

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Chapter 5 Appendix

Sample Request for Proposals

This tool contains sample language that a not-for-profit entity's management team may use to request proposal letters from qualified CPA firms when seeking a new service provider. As such, the sample letter may be subject to audit committee review or discussion. Separate requests for proposals (RFPs) could be used for audit services and any additional CPA services (for example, tax or compilations).

Because the RFPs may require significant time investments from both the organization, to prepare them, and the CPA firms, to respond fully, the organization may first want to send requests for qualifications or requests for information to determine the most qualified firms from which to request RFPs.

Additional useful information regarding peer reviews of CPA firms is included in chapter 5.

Sample Not-for-Profit Request for Proposal Letter for CPA Services and Qualifications

[Company Letterhead]

[Current Date]
[Managing Partner]
[CPA Firm]
[Street Address]
[City, State, Zip]

Dear Sir or Madam:

Our organization is accepting proposals from CPA firms to provide audit and tax services for our organization in the year ending _____[*year*]_____. We invite your firm to submit a proposal to us by _____[*date*]_____ for consideration. Note that the audit committee of the organization's board of directors (audit committee) is the decision-maker in the hiring of the organization's auditor. The organization is acting at the direction of the audit committee in sending this request for proposal (RFP) to you. A description of the organization, the services needed, and other pertinent information follow.

Background of ABC Organization

ABC Organization is a 501(c)(6) trade association, with a related 501(c)(3) foundation, representing manufacturers of widgets. Annual revenues are between $10 million and $12 million per year, and the organization employs 35 people in 1 location. The organization is membership-based and has approximately 20,000 members worldwide. The organization has a

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June 30 fiscal year-end, with a requirement to file an audited financial statement with the bank and general membership by September 30 of each year.

Services to Be Performed

Your proposal is expected to cover the following services:

1. Annual audit to be completed in accordance with aforementioned filing requirement(s) and meetings with audit committee and board of directors as necessary
2. Tax filings for the organization and related foundation
3. Quarterly reviews of internally prepared financial statements
4. Auditor evaluation of and reporting on the internal control over financial reporting
5. Attendance at and reporting to the audit committee twice each year

Key Personnel

Following is a list of key persons you may wish to contact with respect to this engagement.

Mrs. Green	CEO	1-123/555-7890
Ms. Brown	CFO	1-123/555-7891
Mr. Black	General Counsel	1-123/555-7892
Mr. White	Controller	1-123/555-7893
Mr. Plain	Chairman	1-123/555-4567
Ms. Trane	Audit Comm. Chair	1-456/555-0123
Mr. Carr	Outside Counsel	1-789/555-9870

For control purposes, we ask that you coordinate requests for additional information, visits to our site, review of prior financial statements and tax returns, and/or appointments with the CEO, CFO, and Audit Committee Chair through our controller, Mr. White.

Relationship With Prior CPA Service Provider

Because the organization was founded over 20 years ago, these services have been provided by XYZ CPAs. However, that firm is no longer able to provide the services to our organization. In preparing your proposal, be advised that management will give you permission to contact the prior auditors.

You may use this section to disclose whether the decision to change auditors is a function of changes in your organization, changes in the audit firm, or result of a period review of your satisfaction with the services provided. You may describe other aspects of your relationship with the prior auditor that you are willing to disclose at this stage in the proposal process here. CPA

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firms may request additional information, which you may choose to disclose only if the CPA firm signs a nondisclosure agreement.

Other Information

Use this space to discuss other information that a CPA firm may need to make an informed proposal on the accounting and/or auditing work that you require. As mentioned earlier, you should only disclose information here that you are comfortable disclosing; additional information may be available to the CPA firms interested in making serious proposals only after signing a nondisclosure agreement.

Your Response to This Request for Proposal

In responding to this request, please provide the following information:

These are sample questions that you may consider asking. You should tailor these questions to your circumstances and delete or add additional questions as appropriate.

Background on the Firm

1. Detail your firm's experience in providing auditing and tax services to entities in the not-for-profit sector, as well as associations of a comparable size to ABC Organization, including those with international memberships.
2. Provide information on whether you provide services to any related industry associations or groups.
3. Discuss the firm's independence with respect to ABC Organization.
4. Discuss commitments you will make to staff continuity, including your staff turnover experience in the last three years.
5. Identify the five largest not-for-profit clients your firm (or office) has lost in the past three years and the reasons. Also, discuss instances when loss of the client was due to an unresolved auditing or accounting matter. Explain your strategies to resolve the issue(s).
6. Identify the partner, manager, and in-charge accountant who will be assigned to our job if you are successful in your bid; provide biographies for these individuals. Indicate any complaints that have been leveled against them by the state board of accountancy or other regulatory authority, if any. Indicate any corrective actions that have been taken by the firm with respect to these individuals.
7. Describe how your firm will approach the audit of the organization, including the use of any association or affiliate member firm personnel and the areas that will receive primary emphasis. Also, discuss the firm's use of technology in the audit. Finally, discuss the communication process used by the firm to discuss issues with the management and audit committees of the board.

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8. Furnish current standard billing rates for classes of professional personnel for each of the last three years, including an expense policy describing how incidental costs (for example, travel and mileage) are billed.
9. Describe how you bill for questions on technical matters that may arise throughout the year.
10. Provide the names and contact information of other similarly sized not-for-profit clients of the partner and manager that will be assigned to our organization.
11. Describe how and why your firm is different from other firms being considered, and why our selection of your firm as our independent auditors is the best decision we could make.
12. Describe how your firm will prioritize the work you do for ABC Organization.
13. Include a copy of your firm's most recent Peer Review report, the related letters of comments, and the firm's response to the letters of comments.
14. Describe the firm's approach to the resolution of technical disagreements (*a*) among engagement personnel, and (*b*) between the firm and the not-for-profit client.
15. Explain how you monitor and maintain your independence on an ongoing basis.
16. Finally, please submit information on the firm's liability insurance coverage.

Experience in Our Industry

Use this space to ask questions about the firm's experience providing services to other companies in your industry, as well as providing services to companies within your value chain—either as suppliers or customers.

Expected Approach to This Audit

1. Identify the partner, manager, and in-charge accountant who will be assigned to this audit if you are successful in your bid and provide biographical material for each. Indicate any complaints against them that have been leveled by the state board of accountancy or other regulatory authority, if any. Indicate any corrective actions that have been taken by the firm with respect to these people.
2. Describe how your firm will approach the audit of the organization, including the use of any association or affiliate member firm personnel.
3. Set forth your fee proposal for the 20XX audit with whatever guarantees you offer regarding fee increases in future years. Provide your proposed fee for the quarterly review work that will be required as well as the corporate tax preparation if you are proposing to perform the tax work. Ensure that the fee as proposed is sufficient to cover the work that you expect to perform if you are awarded this audit.

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Evaluation of Proposals

The Audit Committee of the Board of Directors of ABC Organization will evaluate proposals on a qualitative basis. This includes a review of the firm's peer review and related materials, interviews with senior engagement personnel to be assigned to our organization, results of discussions with other clients, and the firm's completeness and timeliness in its response to us. Finally, please submit information on the firm's liability insurance coverage.

If you choose to respond to this request, please do so by [*Date indicated earlier in the letter*]. Please let us know if you choose not to respond to this RFP.

Sincerely,

Ms. Brown, CPA	Ms. Trane
Chief Financial Officer	Chair
	Audit Committee

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Questions for Evaluating the Independent Auditor

As a best practice, the audit committee has the responsibility to hire, compensate, evaluate, and terminate the independent auditor. In discharging this responsibility, the audit committee should answer a series of questions about the quality and performance of the auditor, and should obtain input from others in the entity, including management and internal audit.

The sample questions included in this tool are only a starting point for evaluating the performance and effectiveness of the auditor. Audit committee members should ask follow-up questions as appropriate and required.

Questions for Audit Committee Members

Evaluation of the Independent Auditor	Yes	No	N/A	Comments
Quality of Resources and Services				
1. Does the audit team have the knowledge and skills necessary to meet the entity's audit requirements, including specialized skills and industry knowledge? (Consider abilities of the partners, managers, and fieldwork leaders, and level of access to specialized expertise).	___	___	___	
2. Does the auditor identify and discuss the appropriate risks considered in the planning of the audit, including tone at the top, fraud, governance matters, and risk of management override of controls?	___	___	___	
3. Are you satisfied with the auditor's planning, execution, and communication related to the audit, including the scope, nature, extent/sampling, and timing?	___	___	___	
4. Does the firm leverage the work performed by internal audit, management, or both for the audit of internal control over financial reporting when determining the work needed for the audit of the financial statements?	___	___	___	
5. Do the auditor's written reports to the committee cover all appropriate issues adequately, giving consideration to	___	___	___	

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	requirements such as GAAP, GAAS, and GAGAS (if applicable) as well as elements required by the auditor contained in the committee charter?				
6.	Are the audit fees reasonable and sufficient in light of the quality of services provided, size and complexity of the entity's business, and the risks facing the entity and its industry?	__	__	__	
7.	Has the auditor presented the committee with his or her latest AICPA peer review report and, if findings are noted, communicated the resolution? See chapter 5 for additional questions to ask when reviewing the report.	__	__	__	
8.	Has the committee requested that the auditor describe his or her annual internal inspection process that is performed in between the required AICPA peer review?	__	__	__	
Quality of Communications					
9.	Does the auditor communicate issues openly, and in a complete and understandable way?	__	__	__	
10.	Does it appear that the auditor is free from undue influence by management, and that the auditor is comfortable raising issues that would reflect negatively on management?	__	__	__	
11.	Does the auditor take advantage of executive session appropriately by discussing any sensitive issues professionally, candidly, and in a timely manner?	__	__	__	
12.	Does the auditor communicate, or ensure that management communicates, relevant developments in accounting principles and auditing standards that could affect the entity?	__	__	__	

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13. Does the auditor volunteer constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the entity's internal controls over financial reporting?	__	__	__	
Independence and Objectivity				
14. Considering all audit-related and nonaudit services performed by the auditor, are you satisfied that the auditor remains independent and objective both in fact and appearance?	__	__	__	
15. Are you satisfied that the auditor reports all matters openly to the committee that might be thought to bear on the firm's independence?	__	__	__	
16. Based on the open and informative nature of the auditor's answers to questions posed by the committee, do you feel confident that the auditor maintains appropriate objectivity and professional skepticism?	__	__	__	
Final Evaluation				
17. Based on your assessment, would you rehire the auditor to conduct future audits? If yes, what changes would you make, if any? If no, why not? Notes: _____ _____ _____	__	__	__	

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Questions for Management and/or Internal Audit

Evaluation of the Independent Auditor	Yes	No	N/A	Comments
In addition to the questions above, following are questions the audit committee may ask of not-for-profit entity's personnel such as the CAE, CFO, controller, or general counsel, to assist in evaluating the performance of the auditor.				
1. Does the auditor work with internal audit to ensure the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources?	__	__	__	
2. a. Are you satisfied with the knowledge, skills, and abilities of the staff assigned to do the audit work?	__	__	__	
b. Are you satisfied with the performance of the engagement leadership assigned, including the partner(s), manager(s), and fieldwork leaders?	__	__	__	
3. Was cooperative work with the auditor conducted in the spirit of professionalism and mutual respect?	__	__	__	
4. a. Are you aware of any other information that might impair the independence of the audit firm?	__	__	__	
b. Are you aware of any individuals on the audit team who might not be independent with respect to the entity for whatever reason?	__	__	__	
5. a. If the choice were yours, would you hire the firm to conduct future audits?	__	__	__	
b. If yes, what changes would you make, if any? If no, why not?	__	__	__	

Other Comments, Further Questions				

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Questions for Evaluating the Internal Audit Function

The following sample questions are only a starting point for evaluating the performance and effectiveness of the internal audit function. Audit committee members should ask follow-up questions as appropriate and required.

Evaluation of Internal Audit Team	Yes	No	N/A	Comments
1. Has the internal audit charter been evaluated to determine whether it is still current, conforms with IIA standards and reflects best practices?	___	___	___	
2. Has the internal audit function fulfilled the responsibilities as defined within the charter?	___	___	___	
3. a. Does the internal audit function maintain a quality assurance and improvement program?	___	___	___	
b. Has the internal audit function conducted the external QAR (either a full external assessment or a self-assessment with an independent external validation) required by IIA standards in the last five years?	___	___	___	
4. Is the CAE reporting relationship appropriate to provide adequate independence to fulfill the CAE's role and meet the needs of the entity? Best practice is the CAE reporting functionally to the audit committee and administratively to the CEO.	___	___	___	
5. Does the entity's executive leadership support and value the work performed by the internal audit function?	___	___	___	
6. If the internal audit function is outsourced: a. Are the areas outsourced appropriately?	___	___	___	
b. Is sufficient monitoring in place to assure the quality of the outsourced function?	___	___	___	
7. Are the internal auditors independent and objective both in fact and appearance?	___	___	___	

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8.	Is the internal audit function's size, budget, and structure adequate to meet its established objectives?	___	___	___	
9.	Does the internal audit function stay abreast of relevant updates such as COSO framework, IFRS, GAAP, and governmental regulations?	___	___	___	
10.	Has the internal audit function addressed all scope limitations and access issues?	___	___	___	
11.	Do the internal auditors feel comfortable raising issues that could reflect negatively on management?	___	___	___	
12.	Are the technical knowledge and experience levels of the internal audit function staff sufficient to ensure that duties are performed appropriately?	___	___	___	
13.	Is the internal audit function's work planned appropriately to address the risks of the entity and focused on the right areas of high risk, judgment, and sensitivity?	___	___	___	
14.	Does the internal audit function's work encompass a good balance between operational and financial areas?	___	___	___	
15.	Does the internal audit function appear to be using its time and resources effectively and efficiently in performing the annual internal audit plan?	___	___	___	
16.	Did the internal audit function consider changes in the independent auditor leadership and staffing when preparing the annual internal audit plan around financial areas?	___	___	___	
17.	Was the internal audit function's involvement in the annual independent audit effective?	___	___	___	
18.	Did the internal audit function provide constructive observations, implications, and recommendations in areas needing improvement?	___	___	___	

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19.	Does management respond in an appropriate and timely fashion to significant recommendations and comments made by the internal audit function?	___	___	___	
20.	Does the internal audit function have adequate on-boarding and training programs to incorporate new staff members quickly?	___	___	___	
21.	Does the internal audit function have continuing education programs and leadership training to grow and develop staff?	___	___	___	
22.	Did the internal audit function address any feedback satisfactorily from the audit committee or senior management?	___	___	___	
23.	Please share any additional thoughts that could further improve the internal audit function's effectiveness and efficiency.				

Other Comments, Further Questions				

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Questions for the Chief Audit Executive Candidate

The audit committee should consider asking the following questions of candidates who have passed the initial employment screening by either the entity's human resources department or an outside recruiting firm. Note that some sample questions may not be appropriate for your organization or the candidate.

Chief Audit Executive—Sample Candidate Interview Questions	Interviewer Notes
1. What do you consider to be internal audit's role within the entity's mission?	
2. What do you see as the biggest challenges for an internal audit team in the short term (3 to 6 months), medium term (6 to 12 months), and over the next 2 to 3 years?	
3. Have you used technology in conducting internal audits, and how has it enhanced conducting the internal audit? Describe your experience with data analytics.	
4. What experience do you have in this industry, and how do you plan to keep abreast of the significant developments relevant to internal audit in this industry? What is your experience in addressing different business practices in different countries?	
5. Have you worked with audit committees in the past? What processes have you put in place to keep the audit committee fully and appropriately informed? In the course of a year, what is the typical number of meetings/communications between the CAE and the audit committee (chair)?	
6. Give some examples of situations you have faced that required special meetings with the audit committee in executive session as a result of disagreements with management. How were these situations resolved with management? Have there been situations in which management has tried to squash your recommendations or discredit your findings, and what was your response? In retrospect, would you now handle these situations differently?	
7. Have you worked with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework? How has the framework	

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	influenced your process in evaluating the adequacy of internal controls? How is this framework used to design your internal audits?	
8.	In your previous company, what type of technology platform was used? Have you been involved in an enterprise resource planning (ERP) system implementation? What role did you play in the process and how did you make sure that the proper controls were in place when the system went live?	
9.	Do you use a formal project planning process that is applied consistently for all internal audits? If so, what benefits have you derived in meeting your team's goals and objectives? What is your average report cycle time from the end of fieldwork?	
10.	Have you ever conducted a formal risk assessment? How have you incorporated the results into setting up an audit plan?	
11.	What roles do the entity's strategic and technology plans play in the development of an audit plan?	
12.	Have you gone out to divisions, affiliates, or locations to ensure that they have significant input into audit objectives and scopes? How is this achieved? How have you resolved differences of opinion in this area without compromising the goals you have established for an audit?	
13.	When you or your team conducts an internal audit, do you have a service orientation to your audit process? Do you work to improve the effectiveness and efficiency of the operations and controls in each audit area? How would you make your recommendations to management? What process would you use to resolve differences of opinion?	
14.	Would you use a process for conducting a "customer satisfaction" survey after an internal audit is completed? How would you integrate this feedback into future audits?	
15.	How would you ensure that the personnel in internal audit have the necessary skills to ensure an adequate understanding of divisional or departmental business?	
16.	How many people have you managed, either as direct reports, or within an organization that you might have overseen? How would you describe your management style? Have you ever participated in a 360-degree	

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assessment process? If so, what did you learn about yourself that surprised you? How did the results of the assessment change your behavior?	
17. Describe a situation in which you were able to use persuasion to convince someone to see things your way?	
18. Describe a situation where you came up with an innovative solution to a challenge your company was facing?	
Other Notes and Questions:	

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Chapter 6: Risk Oversight

Given the complex and dynamic nature of today's global business environment, not-for-profit regulators and stakeholders are calling for more robust systems of risk management and oversight, including more engagement from senior leaders. Formal risk functions are no longer only found in large, public companies, and risk oversight has become a widely accepted best practice in not-for-profit organizational governance.

While the full board would typically be responsible for overseeing enterprise risk management[4][5], monitoring responsibilities for specific risks may be delegated to committees where expertise aligns. Audit committees are often charged with overseeing financial and compliance risks.

To monitor these risks effectively, the audit committee needs to understand the process by which management identifies, evaluates, and manages risk as well as the entity's risk appetite (i.e., the level of risk management is willing to accept in pursuit of its strategic objectives).

Armed with that understanding, an audit committee's procedures related to risk oversight may include the following:

- Review management's risk assessments, inquiring of management and internal auditors, independent auditors regularly regarding financial reporting and compliance risks (and others, as assigned by the board) and related internal controls.
- Receive reports directly from internal auditors, independent auditors regarding the risk assessment and the effectiveness of internal controls related to financial reporting and compliance (and other areas as assigned by the board).
- Review management's responses to recommendations from internal auditors, independent auditors, focusing on the most significant weaknesses and management's attitude toward and attention to corrective action and follow-up.
- Work with the full board and other committees as necessary to ensure that the organization's entire risk profile is receiving proper oversight.
- Foster a tone at the top that promotes a strong system of internal controls.

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[4] *Enterprise risk management* is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its *Enterprise Risk Management – Integrated Framework* Executive Summary (2004) as "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

[5] Audit committees charged with enterprise risk management oversight may find the following resource helpful: *Effective Enterprise Risk Oversight – The Role of the Board of Directors* (COSO, 2009).

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Audit Committee Responsibilities Related to Fraud

Audit committees should take an active role in the prevention and deterrence of fraud. Management should continually ensure that the entity has appropriate antifraud programs and controls in place, and the audit committee should regularly engage management about the existence and adequacy of those antifraud programs and controls. The following information is intended to make audit committee members aware of their responsibilities and highlight areas that may require additional scrutiny as they undertake this important role.

Fraud can be costly to all types of organizations, including not-for-profit entities. According to the Association of Certified Fraud Examiners, (ACFE), U.S. organizations lose an estimated 5% of annual revenues to fraud[6]. Their research indicates that not-for-profit entities were the victim in only 9% of frauds and had the smallest median loss. However, it is noted that due to the often extremely limited resources of many not-for-profits, even the smallest median loss can be devastating[7]. The cost of fraud not only includes the financial cost, but also losses such as damage to the entity's reputation, potential loss of donors or other resource providers, loss of management and board expertise, and many other non-financial costs.

Fraud affecting the organization generally falls within one of three categories:

1. *Financial statement fraud*, where an employee intentionally causes a misstatement or omission of material information in the entity's financial reports (for example, recording fictitious revenues, understating reported expenses or artificially inflating reported assets).
2. *Corruption*, where an employee misuses his or her influence in a business transaction in a way that violates his or her duty to the employer in order to gain a direct or indirect benefit, such as schemes involving bribery or conflicts of interest.
3. *Asset misappropriation*, where an employee steals or misuses the organization's resources (for example, theft of organization cash, false billing schemes, or inflated expense reports).

These fraud schemes can arise from the following sources within an entity:

- *Executive fraud*, which involves senior management's intentional misrepresentation of financial statements, or theft or improper use of entity resources.
- *Management fraud*, which involves middle management's intentional misrepresentation of financial statement transactions, for example, to improve their apparent performance.
- *Employee fraud*, which involves non-senior employee theft or improper use of entity resources.

[6] ACFE. 2018 Report to the Nation on Occupational Fraud and Abuse. ACFE.com/RTTN, 2018, p. 8.

[7] ACFE. *2018 Report to the Nation on Occupational Fraud and Abuse*. ACFE.com/RTTN, 2018, p. 20.

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- *External fraud*, which involves theft or improper use of resources by people who are neither management nor employees of the entity. Outside individuals may, for example, collude with management or employees.

Roles of the Audit Committee in the Prevention, Deterrence, Investigation, and Discovery or Detection of Fraud

The members of the audit committee should understand their role of ensuring that the entity has a strong internal control environment in place, including the design and implementation of programs and controls to prevent and detect fraud. The audit committee also needs to be prepared to aid in the discovery of fraud, investigate, and report on its findings to the board. The components of a robust fraud control program should include a fraud risk assessment[8], fraud reporting mechanisms and protocols, investigation protocols, a disciplinary action policy applied consistently, and a process to identify and report conflicts of interest, usually in the form of an annual conflict of interest questionnaire completed by all employees.

The design of the internal control system should consider the risk of fraud explicitly. Since the occurrence of significant frauds can be attributed frequently to an over-ride of internal controls, the audit committee plays an important role by validating the accuracy of in-formation received by applying skepticism and ensuring that internal controls both address the appropriate risk areas and are functioning as designed.

Internal auditors can serve a vital role in aiding in fraud prevention and deterrence. Internal audit staff who are experienced and trained in fraud prevention and deterrence can help to provide assurance that (1) risks are effectively identified and monitored, (2) organizational processes are effectively controlled and tested periodically, and (3) appropriate follow-up action is taken to address control weaknesses. The audit committee needs to ensure that internal auditors are carrying out their responsibilities in connection with potential fraud.

In practice, some organizations employ full-time internal audit staff to carry out the internal audit function. As an alternative, other organizations outsource these duties to qualified individuals or firms to provide ongoing internal audit services or “on demand” services for one-time projects and investigations. Organizations should determine the approach that best meets their needs.

According to the ACFE, the most effective common method for detection of fraud historically has been tips.[9] In many cases, these tips are obtained through the use of whistleblower policies and hotlines. Not-for-profit entities may consider using the specific requirements for audit committees as outlined in the Sarbanes-Oxley Act as a guide. Sarbanes-Oxley section 301 requires audit committees of listed companies to establish procedures for the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting

[8] The COSO publication *Internal Control—Integrated Framework,* Principle 8*,* (page 78) describes the assessment of fraud risk as one of the fundamental concepts of internal control within an organization.

[9] ACFE. *2018 Report to the Nation on Occupational Fraud and Abuse*. ACFE.com/RTTN, 2018, p. 4.

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controls, or auditing matters; and the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.[10]

In many organizations, the audit committee is significantly involved in the primary investigation and review of the whistleblower complaints and reporting. In addition, some organizations have designated the audit committee chair or an audit committee member as the individual who initially receives whistleblower reports. (See the related tools in the chapter 7 appendix.)

To ensure that management designs, documents, and implements an effective fraud risk management program to encourage ethical behavior, the board or audit committee (if the board so delegates some or all of these responsibilities[11]) should do the following:

- Understand fraud risks relative to the entity's mission and operations.
- Maintain oversight of the fraud risk assessment by ensuring that fraud risk has been considered as part of the entity's risk assessment and strategic plans. This responsibility should be addressed under a periodic agenda item at board meetings when general risks to the entity are considered.
- Monitor management's reports on fraud risks, policies, and control activities, which include obtaining assurance that the controls are effective. The board should establish mechanisms to ensure it is receiving accurate and timely information from management, employees, internal auditors, independent auditors, and other stakeholders regarding potential fraud occurrences.
- Oversee the internal controls established by management.
- Set the appropriate tone at the top through the CEO job description, hiring, evaluation, and succession-planning processes.
- Have the ability to retain and pay outside experts where needed.
- Provide independent auditors with evidence regarding the board's active involvement and concern about fraud risk management.
- Monitor and assess reports of fraud in comparable organizations to provide input on the types of fraud risks relevant to the organization.

Understanding Why Fraud Occurs

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[10] *See also* IIA, AICPA, ACFE. *Managing the Business Risk of Fraud: A Practical Guide*. 2008, p. 11, for guidance regarding the roles of management and staff.

[11] Delegated responsibilities should be documented in the board and applicable committee charters. The board should ensure it has sufficient resources of its own and approve sufficient resources in the budget and long-range plans to enable the entity to achieve its fraud risk management objectives.

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Audit committees should understand incentives to commit fraud so they can carry out their oversight of risks in this area. Three key risk factors—also known as the fraud triangle—are typically present when fraud occurs:

1. Incentive or pressure—for example, an employee's personal financial problems or feelings of pressure to meet revenue, fundraising, or budget goals; to show compliance with grant terms or donor restrictions; to show a greater amount of expenses going toward programs rather than supporting activities; or to reduce or eliminate unrelated business income
2. Opportunity—that is, control deficiencies or weaknesses are present that make it easier to commit fraud (for example, segregation of duties is insufficient or management can override controls)
3. Rationalization—that is, the person committing the fraud has a mindset that seeks and finds justification (for example, they feel justified because they are angry with the organization, helping their family, or intend to pay the money back)

Audit committees should be aware of red flags for fraud that are both broadly applicable and specific to the organization or industry. The following are just a few of the many warning signs of fraud. The presence of these circumstances does not necessarily indicate that fraud has occurred or will occur; rather it should alert the audit committee to be appropriately skeptical.

- Cash is tight.
- Management is overly aggressive.
- Staff are strongly resisting tighter controls.
- Purchasing staff have close relationships with vendors.
- Cash from operations is negative while change in net assets is positive.
- Records are disorganized, missing, or unclear.

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When Fraud Is Discovered

Fraud can be discovered through many sources, including internal auditors, independent auditors, forensic accounting consultants, employees, and vendors. Establishing a confidential hotline can also be an important source of information leading to fraud discovery, as part of an organization's overall ethics, compliance, and fraud prevention program. Although a confidential hotline is something that could be accomplished internally, a variety of outside service providers can be engaged to provide this service for the organization.

If fraud or improprieties are asserted or discovered, the audit committee—through the independent auditors, internal auditors, forensic accounting consultants, or others as appropriate—should investigate, and, if necessary, retain legal counsel to assert claims on the organization's behalf. See the Best Practices for Engaging Independent Counsel and Other Advisers in the chapter 6 appendix. Forensic accounting consultants, in particular, may be needed to provide the depth of skills necessary to conduct a fraud investigation, and if it is desirable, to get an independent assessment.

If fraud is discovered, or there is a reasonable basis to believe that fraud may have occurred, the audit committee is responsible for ensuring that an investigation is undertaken. Criteria should be in place describing the audit committee's level of involvement, based on the severity of the offense. Audit committees will also want to obtain information about all violations of the law and the organization's policies.

Forensic accounting consultants can also provide audit committees with other related advisory services, namely, (1) evaluations of controls designs and operating effectiveness through compliance verification; (2) creation of special investigations units (SIUs); (3) incident management committees; (4) disclosure risk controls; and (5) ethics hotlines and a code of conduct, if they are not already in place.

Forensic Accounting Consultants

In some situations, it may be necessary for an organization to look beyond the independent audit team for expertise in the fraud area. In such cases, CPA and CFE forensic accounting consultants can provide additional assurance or advanced expertise. They have special training and experience in fraud prevention, deterrence, investigation, and detection.

Forensic accounting consultants may also provide fresh insights into the organization's operations, control systems, and risks. Forensic accounting consultants, however, cannot act as insurers to prevent or detect fraud.

Many forensic accountants have obtained specific training in the identification and detection of fraud and may have additional designations such as certified fraud examiner. For more information about certified fraud examiners visit the ACFE's website, www.acfe.com.

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The audit committee can engage the incumbent audit firm to carry out a forensic/fraud investigation. It is important to recognize, however, that the audit firm would be precluded from serving subsequently as an expert witness in such circumstances. Audit committees should therefore consider the use of forensic professionals who are not affiliated with the audit firm, since they would not be subject to such constraints. If fraud is discovered and an investigation is necessary, the entity's general counsel or an out-side law firm should be engaged to determine how best to proceed with the investigation. In addition, if CPA forensic accountants are engaged by the entity's general counsel, rather than the audit committee, they may attain attorney-client privilege status potentially, which is not otherwise available under normal circumstances.

Fraud Summary

Good governance principles demand that an organization's board of directors ensure high ethical behavior, regardless of organization type, status, size, or industry. The board's role is critically important because major frauds have historically been perpetrated by senior management in collusion with other employees. Vigilant handling of fraud cases within an organization sends a clear signal to the public, stakeholders, and regulators about the board and management's attitude toward fraud risks and about the organization's fraud risk tolerance. Audit committees play a pivotal role in the prevention and deterrence of fraud, as well as the action steps in the event of fraud discovery.

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Chapter 6 Appendix

Best Practices: Engaging Independent Counsel and Other Advisers

An audit committee may need the expertise from outsiders other than the independent auditor. For example, legal counsel and forensic accounting services could be necessary to investigate an alleged fraudulent or illegal activity or a significant business transaction. The following discussion addresses the considerations and best practices audit committee members should keep in mind prior to and during the process of engaging third-party advisers.

When selecting independent counsel or other advisers (expert or adviser) for an engagement within the not-for-profit entity, the audit committee should not only consider the education, training, and experience of the specialists and staff assistants actually performing the work, but it should determine that the service provider (1) maintains integrity and objectivity; (2) is free of conflicts of interest with respect to the members of the audit committee and the not-for-profit entity; (3) has the expertise and resources necessary to do the work it is under consideration to do; and (4) has a reputation for reliability, among other considerations.

Although the nature of every engagement will be different, the initial steps the audit committee (or its designee) should undertake when engaging external resources include the following:

1. Determine that the expert or adviser has the competence and experience to perform the requested service. Check references with other clients of the service provider.
2. Determine whether the expert or adviser has a conflict of interest with respect to the not-for-profit entity. Such a conflict might arise if the expert or adviser has a relationship with the independent auditor, or the subject of the engagement, or if he or she provides service to a competitor. Depending on the nature of the service to be offered, a conflict could arise if the expert or adviser has a relationship with a member of the board of directors, or a member of the entity's management. Be aware of other potential conflicts of interest that may distract, or undermine, the work to be done.
3. Determine if the expert or adviser has sufficient resources to perform the work in the time frame specified by the audit committee.
4. Evaluate the scope of work to be performed and other issues, including the proposed plan for payment of fees and expenses.
5. Make sure all parties, including management and the expert or adviser, understand that the audit committee is the owner of the service relationship. Make sure that management understands that the expert or adviser is working on behalf of the audit committee and the audit committee expects management to be fully cooperative and forthcoming with respect to any information that may be requested.

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6. Determine the criteria that will be used to measure the expert's/adviser's work and document those criteria in an agreement with the service provider.
7. Execute an engagement letter specifying the scope of services to be performed and the terms of the engagement.
8. Ensure that the external counsel or adviser clearly understands the reporting relationship(s) and to whom he or she will report and share the findings of the engagement.

As with any relationship, communication and expectations management are important and should be clearly established prior to the commencement of an engagement.

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Chapter 7: Ethics and Compliance Oversight

The audit committee plays an important role in helping the board oversee the organization's ethics and compliance program, which among other things, sets a tone at the top that promotes ethical behavior throughout the organization. The following is an illustrative list of audit committee responsibilities related to the oversight of ethics and compliance. This list is not intended to be complete and includes both required and best practices for audit committees.

- Oversee system for compliance with applicable legal and regulatory requirements (for example, state fundraising and licensing, federal regulations, and the like).
- Ensure that management exhibits ethical behavior and reported violations receive action.
- Ensure that a code of conduct has been developed, reviewed, and updated as needed, and that all employees are given the code of conduct, understand it, and receive training on a regular basis. (See the chapter 7 appendix for a sample code of ethics.)
- Monitor compliance with the conflict of interest policy adopted by the board. (See the chapter 7 appendix for a sample conflict of interest policy and click here to download a sample annual conflict of interest questionnaire.)
- Ensure that a chief ethics and compliance officer or equivalent has been appointed and has sufficient personnel and resources commensurate with organization needs.
- Ensure that the chief ethics and compliance officer or equivalent has direct access to the board or one of its committees.
- Review the entity's procedures for reporting problems, including whistleblower hotline and other communication methods.
- Establish a process for audit committee special investigations, including but not limited to whistleblower allegation, anti-fraud plan compliance, discovery of error, and illegal acts.
- Monitor compliance with the whistleblower policy adopted by the board. (See the chapter 7 appendix for a sample whistleblower policy illustrating common procedures for handling and reporting complaints, a tool for evaluating the effectiveness of those procedures, and a tool for tracking complaints received and actions taken.)
- Act as external point of contact for any whistleblowing issues, and if necessary, initiate special investigations of policies, procedures and practices.
- Monitor compliance with the code of ethics.
- Foster an appropriate tone at the top.

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Conflicts of Interest

Conflicts of interest can take various forms depending on the parties involved. An effectively designed and implemented conflict of interest policy is an essential element of strong governance in a not-for-profit entity.

A conflict of interest policy generally addresses conflicts that may arise for board members, directors, and employees. A sample policy is included in the chapter 7 appendix. Audit committee independence is discussed further in chapter 2.

Code of Ethics

While not required for not-for-profit entities, adopting a code of ethics is a best practice and promotes ethical behavior within the organization, financial reporting fairness and accuracy, compliance with laws and regulations, and the ethical handling of conflicts and complaints. A robust and enforced code of ethics is a key indicator of a tone at the top that signifies a strong control environment. As a best practice audit committee members should take an active role in fostering the appropriate tone at the top through regular communication with management and the internal auditors and independent auditors.

Complaint Handling and Oversight

Audit committees of many not-for-profit entities ensure that an effective process is in place to report complaints received, whether generated internally or externally, regarding violations or suspected violations of laws or organizational policies. Having a whistleblower policy in place is a compliance best practice. Not-for-profits also are asked on IRS Form 990 if they have a written whistleblower policy. An effective whistleblower policy and process strengthen organizational governance by providing a means to address unethical or illegal activity.

Further, a vigorous whistleblower policy is a not-for-profit entity's key defense against management override. The audit committee can assist in creating strong antifraud controls by encouraging the development of a culture in which employees view whistleblowing as a valuable contribution to an attractive workplace of integrity and their own futures.

Federal law prohibits retaliation against anyone "blowing the whistle" on a violation of federal law or regulation. To be effective, the reporting mechanisms should demonstrate confidentiality so potential whistleblowers are assured that their concerns will be considered properly and they will not be subjected to retribution. Successful whistle-blowing and anti-retaliation procedures require strong leadership from the audit committee, the board of directors, and management.

The audit committee plays a vital part in assuring that employees are required to promptly report any known or suspected violations of policies and procedures, laws, rules, or regulations by which the entity is governed. The audit committee should also ensure that employees are confident in the investigation process and are protected from retaliation.

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Chapter 7 Appendix

Sample Organizational Code of Ethics

An organizational code of ethics serves to promote appropriate and consistent decision making and behavior in support of the not-for-profit entity (NFP) and its mission, by staff, board members, and others who work with the NFP. It provides a framework and establishes expectations for acceptable conduct throughout the organization. A code of ethics alone does not create an ethical organization, but rather it serves to maintain a culture of accountability and transparency that is established and supported by the NFP's leadership.

This tool contains sample elements that can be used in the creation of a code of ethics. As with any policy of this nature, the NFP may wish to consult legal counsel for assistance in developing a code of ethics that is appropriate for the organization.

Code of Ethics

The purpose of this Code is to articulate the values and ideals at the heart of our work and to unify board members, staff, volunteers, supporters, and community partners in adhering to these values and ideals as we carry out our mission to [insert mission statement].

Our Mission

The Organization has a clearly stated mission in pursuit of the public good, and all programs will support that mission. All who work for or on behalf of the Organization will understand and be loyal to that mission and purpose. The mission will remain responsive to the constituencies and communities served by the Organization and of value to society at large.

Governance

The Organization's Board of Directors [or Trustees] is responsible for setting the mission and strategic direction of the organization and will approve and oversee the finances, operations, and policies of the organization. The Board of Directors:

- Ensures that its officers and directors have the requisite skills and experience to carry out their duties and that all board members understand and fulfill their governance duties acting for the benefit of the Organization and its public purpose.
- Holds regular meetings and ensures a quorum is present at each board meeting.
- Records minutes for each meeting which are approved by the Board within XX days [or at the next scheduled board meeting] and retained in the organization's records.
- Adheres to a conflict of interest policy and ensures that any conflicts or the appearance thereof are avoided or appropriately managed through disclosure, recusal, or other means.

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- Oversees and approves the hiring, firing, and review of the performance of any paid staff or contractor, and ensures that the compensation is reasonable, fair, and appropriate.
- Ensures staff employees, contractors, and volunteers provide timely and comprehensive information so that the governing body can effectively carry out its duties.
- Ensures the Organization conducts all transactions and dealings with integrity and honesty.
- Ensures that the Organization promotes working relationships with contractors, staff, volunteers, and program beneficiaries that are based on mutual respect, fairness and openness.
- Ensures that the Organization is fair and inclusive in its hiring and promotion policies and practices for all board, staff, contractor and volunteer positions.
- Ensures that the Organization's policies are in writing, clearly articulated and available, and enforced.
- Ensures that the Organization has the capacity to carry out its programs effectively.

Personal and Professional Integrity

The Organization will create a working environment that values respect, fairness, and integrity. Accordingly, the Organization's board of directors, volunteers, and staff will act with honesty, integrity and openness in all their dealings as representatives of the organization to all constituents served by its programs and projects.

Responsible Stewardship

The Organization will manage organization funds responsibly and prudently. This will include the following considerations:

- All financial practices and policies will be fair, reasonable and appropriate in furtherance of the Organization's charitable mission.
- The Board of Directors will approve the Organization's annual budget and will receive regular financial reports that are factually accurate and complete in all material respects. Further, a reasonable percentage of public contributions will be applied to programs and activities described in solicitations, in accordance with donor expectations. An adequate amount will be spent on administrative expenses to ensure effective accounting systems, internal controls, competent staff, and other expenditures critical to professional management.
- The Organization will compensate staff, contractors, and any others who may receive compensation appropriately. All compensation will be reviewed and approved by the Board of Directors. If decisions regarding compensation present a conflict of interest for a Director, that Director will recuse himself or herself for the vote.

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- Reasonable internal controls will be in place to safeguard the Organization's assets from theft or misuse, and management will ensure adequate controls over expenditures and disbursements.
- Organization will adopt a Whistleblower Policy to prevent, detect and address improper activities. The policy will be distributed to the board, staff, and volunteers and will be made available to the public on the organization's website. Organization will take timely and appropriate action to address concerns brought forth in accordance with that policy.

Ethical Promotion and Accountability

Basic informational data about the organization, such as the Form 990, will be posted on the Organization website or otherwise made available to the public. All solicitation materials, financial records, and program reports will be complete and accurate in all material respects. Further, the Organization will provide comprehensive and timely information to the public, the media, and all stakeholders and will be responsive in a timely manner to reasonable requests for information.

Fundraising

The Organization will raise funds from the public and from donor institutions, in compliance with the gift acceptance policy, and be truthful in solicitation materials. The Organization will respect the privacy concerns of individual donors and expends funds consistent with donor intent. The Organization will disclose important and relevant information to potential donors.

In raising funds, the Organization will respect the rights of donors, as follows:

- To be informed of Organization's mission, the way the resources will be used and their capacity to use donations effectively for their intended purposes.
- To be informed of the identity of those serving on the Organization Board of Directors and to expect the Board to exercise prudent judgment in its stewardship responsibilities.
- To have access to the most recent Organization financial reports according to State and Federal disclosure requirements applicable to tax-exempt organizations.
- To be assured their gifts will be used for the purposes for which they were given.
- To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.
- To be informed whether those seeking donations are volunteers, employees, professional fundraisers or solicitors.
- To have the opportunity to request exclusion from Organization's mailing list.

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- To feel free to ask questions when making a donation and to receive truthful and forthright answers.

Legal and Regulatory Compliance

The Organization will be vigilant in compliance with all applicable international, federal, state and local laws, regulations and applicable conventions that govern and regulate tax-exempt organizations.

Inclusiveness and Diversity

Organization will promote inclusiveness and diversity. The Organization will take meaningful steps to promote inclusiveness in its hiring, retention, promotion, board recruitment and constituencies served in the community. [If Organization has a Diversity Policy, reference it here.]

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Sample Conflict of Interest Policy

It is important that those who work with and for not-for-profit entities (NFPs) conduct themselves in an ethical and transparent manner. The decisions and actions of the leadership of an NFP can have a direct and significant impact on the reputation of the NFP with its supporters and the general public. This tool contains sample elements that can be used in the creation of a policy to address potential conflicts of interest with employees and board members. As with any policy of this nature, the NFP may wish to consult legal counsel for assistance in developing a conflict of interest policy that is appropriate for the organization.

Purpose of Policy

This conflict of interest policy is designed to help directors, officers, and employees of the [Organization Name] identify situations that present potential conflicts of interest and to provide [Organization Name] with a procedure that, if observed, will allow a transaction to be treated as valid and binding even though a director, officer, or employee has or may have a conflict of interest with respect to the transaction. In the event there is an inconsistency between the requirements and procedures prescribed herein and those in federal or state law, the law shall control. All capitalized terms are defined in Part 2 of this policy.

Part 1. Conflict of Interest, Defined

For purposes of this policy, the following circumstances shall be deemed to create Conflicts of Interest:

- Outside Interests.
  - An Agreement or Transaction between [Organization Name] and a Responsible Person or Family Member.
  - An Agreement or Transaction between [Organization Name] and an entity in which a Responsible Person or Family Member has a Material Financial Interest or of which such person is a director, officer, agent, partner, associate, trustee, personal representative, receiver, guardian, custodian, conservator, or other legal representative.
- Outside Activities.
  - A Responsible Person competing with [Organization Name] in the rendering of services or in any other Agreement or Transaction with a third party.
  - A Responsible Person’s having a Material Financial Interest in; or serving as a director, officer, employee, agent, partner, associate, trustee, personal representative, receiver, guardian, custodian, conservator, or other legal representative of, or consultant to; an entity or individual that competes with [Organization Name] in the provision of services or in any other Agreement or Transaction with a third party.

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- Gifts, Gratuities and Entertainment. A Responsible Person accepting gifts, entertainment, or other favors from any individual or entity that:
  - does or is seeking to do business with, or is a competitor of [Organization Name]; or
  - has received, is receiving, or is seeking to receive a loan or grant, or to secure other financial commitments from [Organization Name];
  - is a charitable organization;
  - under circumstances where it might be inferred that such action was intended to influence or possibly would influence the Responsible Person in the performance of his or her duties. This does not preclude the acceptance of items of nominal or insignificant value or entertainment of nominal or insignificant value that are not related to any particular transaction or activity of [Organization Name].

Definitions.

- A "Conflict of Interest" is any circumstance described in Part 1 of this Policy.
- A "Responsible Person" is any person serving as an officer, employee, or member of the board of directors of [Organization Name].
- A "Family Member" is a spouse, domestic partner, parent, child, or spouse of a child, brother, sister, or spouse of a brother or sister, of a Responsible Person.
- A "Material Financial Interest" in an entity is a financial interest of any kind that, in view of all the circumstances, is substantial enough that it would, or reasonably could, affect a Responsible Person's or Family Member's judgment with respect to transactions to which the entity is a party. This includes all forms of compensation. (The board may wish to establish an amount that it would consider to be a "material financial interest.")
- An "Agreement or Transaction" is any agreement or relationship involving the sale or purchase of goods, services, or rights of any kind, the providing or receipt of a loan or grant, or the establishment of any other type of pecuniary relationship by [Organization Name]. The making of a gift to [Organization Name] is not an Agreement or Transaction within the meaning of this document.

Procedures.

- Before board or committee action on and Agreement or Transaction involving a Conflict of Interest, a director or committee member having a Conflict of Interest and who is in attendance at the meeting shall disclose all facts material to the Conflict of Interest. Such disclosure shall be reflected in the minutes of the meeting.
- A director or committee member who plans not to attend a meeting at which he or she has reason to believe that the board or committee will act on a matter in which the person has a

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Conflict of Interest shall disclose to the chair of the meeting all facts material to the Conflict of Interest. The chair shall report the disclosure at the meeting and the disclosure shall be reflected in the minutes of the meeting.

- A person who has a Conflict of Interest shall not participate in or be permitted to hear the board's or committee's discussion of the matter except to disclose material facts and to respond to questions. Such person shall not attempt to exert his or her personal influence with respect to the matter, either at or outside the meeting.
- A person who has a Conflict of Interest with respect to an Agreement or Transaction that will be voted on at a meeting shall not be counted in determining the presence of a quorum for purposes of the vote. The person having a conflict of interest may not vote on the Agreement or Transaction and shall not be present in the meeting room when the vote is taken, unless the vote is by secret ballot. Such person's ineligibility to vote shall be reflected in the minutes of the meeting. For purposes of this paragraph, a member of the board of directors of [Organization Name] has a Conflict of Interest when he or she stands for election as an officer or for re-election as a member of the board of directors.
- Responsible Persons who are not members of the board of directors of [Organization Name], or who have a Conflict of Interest with respect to an Agreement or Transaction that is not the subject of board or committee action, shall disclose to the Chair or the Chair's designee any Conflict of Interest that such Responsible Person has with respect to an Agreement or Transaction. Such disclosure shall be made as soon as the Conflict of Interest is known to the Responsible Person. The Responsible Person shall refrain from any action that may affect [Organization Name]'s participation in such Agreement or Transaction.
- In the event it is not entirely clear that a Conflict of Interest exists, the individual with the potential conflict shall disclose the circumstances to the Chair or the Chair's designee, who shall determine whether there exists a Conflict of Interest that is subject to this policy.

Confidentiality.

Each Responsible Person shall exercise care not to disclose confidential information acquired in connection with such status or information the disclosure of which might be adverse to the interests of [Organization Name]. Furthermore, a Responsible Person shall not disclose or use information relating to the business of [Organization Name] for the personal profit or advantage of the Responsible Person or a Family Member or the Responsible Person's company.

Review of Policy.

- Each new Responsible Person shall be required to review a copy of this Policy and to acknowledge in writing that he or she has done so.
- Each Responsible Person shall annually complete a disclosure form identifying any relationships, positions, or circumstances in which the Responsible Person is involved that

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he or she believes could contribute to a Conflict of Interest arising. Such relationships, positions, or circumstances might include service as a director of or consultant to a not-for-profit organization, or ownership of a business that might provide goods or services to [Organization Name]. Each Responsible Person should also disclose to the board of directors any potential Conflict of Interest that may arise during the course of the year between the submission of annual disclosure forms. Any such information regarding business interests of a Responsible Person or a Family Member shall be treated as confidential and shall generally be made available only to the Chair, the Executive Director, and any committee appointed to address Conflicts of Interest, except to the extent additional disclosure is necessary in connection with the implementation of this Policy.

- This policy shall be reviewed annually by each member of the board of directors. Any changes to the policy shall be communicated immediately to all Responsible Persons.

[Organization Name]

Conflict of Interest Information Form

Name: Date:

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Sample Whistleblower Policy: Procedures for Handling Complaints

This tool could be used by the audit committee and management to state the policy, procedures, and the confidentiality requirements that a person with a complaint should follow to report and track complaints received to an appropriate resolution.

Statement of Purpose

The organization strives to conduct all of its activities according to high ethical standards. Adherence to this goal is imperative. The audit committee of the organization's board of directors has adopted these procedures for handling complaints to assist the organization in meeting its ethical and legal obligations.

Employee Complaints

Employees are required to report any known or suspected violation of the organization's policies and procedures, laws, rules, or regulations by which our organization is governed. The organization requires any employee to report any matter which he or she views as questionable. Generally, such concerns should be raised initially with a supervisor, the director of Human Resources or through the complaint hotline. However, if an employee is unsuccessful in resolving a concern through such channels or believes that the concern will not be adequately addressed through such channels, the employee should contact a member of the audit committee. The names, telephone numbers, and e-mail addresses of the current members of the audit committee are listed on our organization's intranet.

Any employee who learns of or is asked to participate in potentially non-compliant activities should report the matter immediately to his or her supervisor or to the director of Human Resources. If the potential non-compliant activity involves the supervisor and/or the director of Human Resources, the information should be reported to the general counsel or the complaint hotline. Complaints involving the chief executive officer, chief operating officer, chief financial officer, or general counsel should be made directly to the audit committee or the complaint hotline. Board members should also report any non-compliant activity directly to the audit committee.

Employees may submit their complaints in writing to the director of Human Resources. Given the sensitivity of such matters, we request that you label the correspondence "Confidential." Employees may submit concerns on a confidential, anonymous basis. If an employee does not want to be identified with the submission, he or she should not include his or her name in the correspondence, but, instead, indicate prominently on the submission that it is a "Confidential, Anonymous Employee Submission."

Employees may report their complaints confidentially to the complaint hotline. The complaint hotline number is XXX-XXX-XXXX. The complaint hotline telephone number shall be visibly posted in a manner consistent with employee notifications in locations frequented by the

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organization’s employees. Employees may make reports anonymously. No caller will be required to disclose his or her identity, and no attempt will be made to trace the source of the call or the identity of the caller when the caller requests anonymity. If the call is anonymous, the caller should leave sufficient information that the complaint may be fully investigated.

If a caller has revealed his or her identity, confidentiality will be maintained to the extent practicable by law. Callers should be aware, however, that it may not be possible to preserve anonymity if they identify themselves, provide other information which identifies them, the investigation reveals their identity, or they inform people that they have called the complaint hotline. Callers should also be aware that under certain circumstances the organization is legally required to report certain types of crimes or potential crimes and infractions to external governmental agencies.

Board Complaints

Any board member who has a concern regarding what he or she views as questionable should bring these concerns to the attention of the audit committee.

A board member serving on the audit committee should contact the audit committee chair immediately and raise any such concerns so they can be discussed no later than at the first audit committee meeting held after he or she becomes concerned. It may also be prudent to convene a special meeting of the audit committee to discuss these concerns.

Processing, Tracking, and Investigating Complaints

The person who receives a report of a suspected violation shall document the complaint noting name and position of person providing the information (if provided), date reported, and brief description of the issue. This information should then be forwarded to the director of Human Resources or the appropriate channels. If the potential complaint involves the director of Human Resources or if the director of Human Resources is unavailable, the information should be reported to the general counsel. Any complaints related to the chief executive officer, chief operating officer, chief financial officer, general counsel, or a board member should be reported without delay to the chair of the audit committee.

The person receiving the complaint will assign the complaint a tracking number, log the complaint into the complaint tracking report, and immediately begin an investigation. The investigator will appropriately document the complaint, the investigation, and the resolution. A written report summarizing all of the complaints reported, investigatory findings, and any corrective actions taken will be presented to the audit committee semi-annually.

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Retention of Complaints

Each investigator will maintain the complaint log and maintain a file of materials related to complaints on behalf of the organization. These materials will be retained for a period of five years, or for a longer period if required by law.

Non-Retaliation/Non-Retribution

The organization will not tolerate any form of retaliation against any employee (1) who submits a good faith complaint or (2) who assists in an investigation of challenged practices.

All employees of the organization are strictly prohibited from engaging in any act or conduct of behavior which results in, or is intended to result in, retaliation or retribution against any employee for reporting his or her concerns relating to a possible violation.

If an employee believes in good faith that he or she has been retaliated against for initiating a report or complaint or for participating in any investigation related to such report or complaint, then the employee should report the retaliation to his or her supervisor, the director of Human Resources or the organization's complaint hotline as soon as possible. The report should provide a thorough account of the incident(s) and should include names, dates of specific events, the names of any witnesses, and the location or name of any document in support of the alleged retaliation.

A thorough investigation will be conducted. Adverse actions in retaliation for an employee's report or complaint may result in discipline, up to and including termination, of the person or persons performing such actions.

Distribution of Whistleblower Policy

A copy of this policy will be distributed annually to all board members, employees and volunteers who provide substantial services to the organization. In addition, the policy and complaint hotline telephone number shall be posted visibly in a manner consistent with employee notifications in locations frequented by employees. A description of the Whistleblower Policy and Procedures is contained on our website at [*URL*].

Compliance With the Organization's Whistleblower Policy

All employees will be required to sign a form attesting to, among other things, adherence to the organization's Whistleblower Policy annually. A periodic audit will be conducted to ensure adherence to and effectiveness of this policy.

Note: AICPA Not-for-Profit Section members can download an additional example whistleblower policy in the NFP Governance and Management Library.

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Sample Complaint Tracking Report

The following is a sample report that can be used to track complaints reported by whistleblowers. Before using this tool, the entity or audit committee should review any applicable state or local laws and regulations, as well as the appropriate rules promulgated by other relevant regulatory bodies, if any.

Sample Tracking Report						
Date Submitted	**Tracking Number**	**Description of Complaint**	**Submitted By***	**Current Status****	**Actions Taken**	
					Date	**Comments**
* Submitted By Codes: Employee (E); Funder (F); Vendor (V); Board Member (B); Volunteer (T); Other (O) ** Current Status Codes: R—Resolved; UI—Under Investigation; D—Dismissed; W—Withdrawn; P—Pending/No Action						

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Checklist: Whistleblower Complaint Reporting Common Practices

This tool contains a checklist of issues for audit committees to consider when evaluating the design and operating effectiveness of the whistleblower complaint reporting process. These questions are written in a manner such that a "No" response indicates areas where additional thought or action is recommended for an effective program.

	Yes	No	Not sure	Comments
Policy Components				
1. Has a complaint reporting policy been developed and effectively communicated to employees and external service providers?	___	___	___	
2. Does the policy describe the following: a. A statement of purpose and the nature of concerns within the policy's scope? Does the policy support and clarify how it differs from the entity's normal complaint procedures?	___	___	___	
b. The parties involved in the receipt, handling, and disposition of complaints, including the audit committee?	___	___	___	
c. The duty of all employees to promptly report any known or suspected violations?	___	___	___	
d. The multiple channels for reporting a concern? Are these various methodologies clearly communicated?	___	___	___	
e. The confidentiality safeguards that an individual who makes a report can expect?	___	___	___	
f. The steps to follow in order to make an anonymous report, as well as the related handling procedures?	___	___	___	
g. The definition of good faith, credible reporting? Does the policy address	___	___	___	

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	the handling of vague complaints received from an anonymous source?				
	h. The steps used to receive, investigate, and track reported issues?	___	___	___	
	i. The retention requirement for complaints?	___	___	___	
	j. The statement that violations can be reported without fear of retaliation, the process to report retaliation, and the process the entity will use to investigate suspected retaliation?	___	___	___	
	k. Additional procedures if the violation is in regard to the leader of the entity (for example, the president, executive director, or CEO)?	___	___	___	
	l. Procedures that board members should follow to make a complaint?	___	___	___	
3.	Is the policy publicized widely and recommunicated periodically so that all directors, officers, employees, and volunteers who provide substantial services to the entity have awareness?	___	___	___	
Procedural Components					
1.	Is more than one communication channel available to employees, such as telephone, web, or email? Do channels have sufficient ease of use and provide for confidentiality and anonymity?	___	___	___	
2.	Are the communication channels through which an issue must flow effective in ensuring that issues reach the audit committee for evaluation consistently?	___	___	___	
3.	Is there a mechanism in place that assures automatic submission of any issue involving senior management, the board, or an audit committee member directly to the audit committee without filtering?	___	___	___	

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4.	Are all employees aware of the primary persons to whom they should report a matter? In the event the primary persons are absent or included in the potential complaint activity, have alternative persons been delegated to resolve the complaint?	___	___	___	
5.	Is there a process that allows an individual to receive information about the disposition of his or her report at an appropriate level?	___	___	___	
6.	Are issues documented, tracked, investigated, and resolved in a timely manner?	___	___	___	
7.	Are all issues received through the whistleblower channels reported to the audit committee for discussion?	___	___	___	
8.	Is the documentation for all issues maintained per the retention policy?	___	___	___	
9.	Are internal audits performed regularly on the whistleblower program to assure the design and operating effectiveness of the defined protocols?	___	___	___	
10.	Are employees required to sign a form annually attesting to adherence to the whistleblower policy?	___	___	___	
11.	Are all reports disposed of prudently and are all those involved advised of final disposition?	___	___	___	

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Appendix: Additional Resources for Audit Committees

Resources for Audit Committees

There is a wealth of resources available online to assist audit committee members in learning more about their roles, responsibilities, and functions and in fulfilling their responsibilities. This appendix provides a list of organizations and websites that contain resources for audit committee members to investigate.

Alliance for Nonprofit Management
www.allianceonline.org

The Alliance for Nonprofit Management is a coalition of not-for-profit technical assistance providers, not-for-profit umbrella organizations, funders, public regulators, professional services providers, academics, and others that share an interest in promoting good governance for not-for-profit entities.

American Institute of Certified Public Accountants
www.aicpa.org

The American Institute of Certified Public Accountants (AICPA) is the national professional association for all certified public accountants. This includes CPAs working as independent auditors, accountants, or consultants in public practice, business and industry (including CFOs, controllers, and internal auditors), government, not-for-profit entities, and the academic community.

The AICPA has developed this Audit Committee Toolkit to aid audit committee members in performing their functions. In addition, the AICPA produces publications on accounting and auditing, financial reporting, tax, technology, and many other relevant topics. Some additional online resources useful to audit committees include the following:

Not-for-Profit Governance Resource Library
www.aicpa.org/interestareas/notforprofit/resources/governancemanagement.html

Audit Committee Effectiveness Center and Matching System
www.aicpa.org/forthepublic/auditcommitteeeffectiveness.html

Internal Control Interest Area
www.aicpa.org/interestareas/businessindustryandgovernment/resources/riskmanagmentandinternalcontrol/coso-integrated-framework-project.html

In addition, the AICPA provides numerous conferences and CPE sessions dedicated to the not-for-profit sector, the largest of which is the national not-for-profit industry conference held in June of each year.

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AICPA Not-for-Profit Section
www.aicpa.org/NFP

The AICPA Not-for-Profit Section supports those who work for and with not-for-profits by providing tools, resources, industry news, and continuing professional education covering not-for-profit financial accounting and reporting, governance and management, assurance, and tax compliance.

American Society of Association Executives
www.asaecenter.org

The American Society of Association Executives (ASAE) is a national organization serving the needs of association professionals through its education and certification programs, publications, research and information, public policy and public relations activities, and member services. ASAE membership is a diverse mix of association CEOs and professional staff (focusing on membership, meetings, education, expositions, publications, communications, marketing, technology, finance and administration, advocacy, component relations, and every other area of association management), as well as industry partners and consultants.

Association of Audit Committee Members
www.aacmi.org

The Association of Audit Committee Members is a not-for-profit association of audit committee members dedicated to strengthening the audit committee by developing national best practices, including a robust whistleblower system. They are devoted exclusively to improving audit committee oversight.

Association of Certified Fraud Examiners
www.acfe.com

The Association of Certified Fraud Examiners (ACFE) is a global professional organization dedicated to fighting fraud and white-collar crime. With chapters around the globe, the ACFE is networked to respond to the needs of antifraud professionals everywhere. It offers guidance on fraud prevention, detection, and investigation, as well as internal controls. The ACFE publishes the *Report to the Nations on Occupational Fraud and Abuse* body of research aimed at deepening knowledge and understanding of the tremendous financial impact of occupational fraud and abuse on businesses and organizations.

Association of Community College Trustees
www.acct.org

The Association of Community College Trustees is a not-for-profit educational organization of governing boards, representing more than 6,500 elected and appointed trustees who govern over 1,200 community, technical, and junior colleges in the United States and beyond.

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Association of Governing Boards of Universities and Colleges
www.agb.org

The Association of Governing Boards of Universities and Colleges is a national organization providing university and college presidents, board chairs, and individual trustees of both public and private institutions with the resources they need to enhance their effectiveness.

Association of International Certified Professional Accountants
www.cgma.org

The Association of International Certified Professional Accountants established the Chartered Global Management Accountant (CGMA) designation in January 2012. The CGMA's mission is to promote the science of management accounting on the global stage. The designation champions management accountants and the value they add to organizations. Relevant tools and resources supporting board and audit committee responsibilities are included within the vast library on their website.

Better Business Bureau Wise Giving Alliance
www.give.org

The Better Business Bureau provides a "charity watchdog" service for donors called the Wise Giving Alliance. This site provides instructions on how to enroll in the program and how to access the evaluation reports.

BoardSource
www.boardsource.org

BoardSource is a resource for practical information, tools and best practices, training, and leadership development for board members of not-for-profit organizations worldwide. Through its programs and services, BoardSource is dedicated to advancing the public good by building exceptional nonprofit boards and inspiring board service.

Business Roundtable
www.businessroundtable.org

The Business Roundtable (BRT) is an association of chief executive officers of leading U.S. corporations. The BRT is committed to advocating public policies that foster vigorous economic growth, a dynamic global economy, and a well-trained and productive U.S. workforce essential for future competitiveness. The BRT's Corporate Governance Committee focuses on issues related to corporate governance and responsibilities, including accounting standards.

Center for Audit Quality
www.thecaq.org

The Center for Audit Quality (CAQ) is an autonomous, nonpartisan, nonprofit group based in Washington, D.C. It is governed by a board that comprises leaders from public company

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auditing firms, the AICPA, and three members from outside the public company auditing profession. The CAQ is dedicated to enhancing investor confidence and public trust in the global capital markets.

Charity Navigator
www.charitynavigator.org

This is a charity watchdog service providing evaluation of charities for donors.

Committee of Sponsoring Organizations of the Treadway Commission
www.coso.org

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private-sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. Originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, COSO has released numerous influential publications, including, in May 2013, *Internal Control—Integrated Framework* and the *Enterprise Risk Management—Integrated Framework*.

Conference Board
www.conference-board.org

The Conference Board is a global, independent membership organization that creates and disseminates knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. The Conference Board conducts research, convene conferences, make forecasts, assess trends, publish information and analysis, and bring executives together to learn from one another. The Conference Board's Commission on Public Trust and Private Enterprise has proposed reforms to strengthen corporate compensation practices and help restore trust in America's corporations and capital markets.

Corporate Board Member
www.boardmember.com

Corporate Board Member magazine's website, Boardmember.com, serves as a central resource for officers and directors of publicly traded corporations, large private companies, and Global 1000 firms. Their resource center offers the full texts of *Corporate Board Member* magazine articles, as well as additional articles, tools, Webcasts, and interviews. Topics include corporate governance, strategic board trends and issues, executive and director compensation, audit committees, risk management, international and technology trends, investor relations, board education, and other critical topics facing today's directors and officers of publicly traded companies. The Corporate Board Member extends its governance leadership through an online resource center, conferences, roundtables, and timely research.

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Council on Foundations
www.cof.org

The council on foundations is a membership organization of more than 2,000 grantmaking foundations and giving programs worldwide. It provides leadership expertise, legal services, and networking opportunities.

Ethics Resources Center
www.ethics.org

The Ethics Resources Center (ERC) is a nonprofit, nonpartisan research organization, dedicated to independent research that advances high ethical standards and practices in public and private institutions, including a focus on ethics and compliance aspects of the federal government. Their mission is to promote ethical leadership worldwide by providing leading-edge expertise and services through research, education, and partnerships on current and emerging issues. The ERC's resources on business and organizational ethics are especially useful.

Financial Accounting Standards Board
www.fasb.org

Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting. This site provides access to multiple resources including FASB *Accounting Standards Codification*®, a compilation of all U.S. generally accepted accounting principles literature in a searchable, codified database.

Financial Executives International
www.financialexecutives.org

Financial Executives International (FEI) is a professional association for senior level financial executives, including chief financial officers, vice-presidents of finance, controllers, treasurers, and tax executives. The FEI provides peer networking opportunities, emerging issues alerts, personal and professional development, and advocacy services.

Governance Check Sheet—Department of the Treasury—IRS
www.irs.gov/pub/irs-tege/governance_check_sheet.pdf

A check sheet that is used by exempt organizations revenue agents in the examination of Internal Revenue Code Section 501(c)(3) public charities.

GuideStar by Candid
www.guidestar.org

GuideStar provides access to information on a wide variety of not-for-profit organizations, including their IRS Form 990.

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Harvard Business School's Executive Education
www.exed.hbs.edu

Harvard Business School's Executive Education website is a comprehensive overview of research, educational programs, and other activities at Harvard Business School aimed at providing new frameworks for thought and practice in several interrelated areas, including governance, leadership, and social enterprise and nonprofits.

Independent Sector
www.independentsector.org

The Independent Sector is committed to strengthening, empowering, and partnering with not-for-profit and philanthropic organizations in their work on behalf of the public good.

Institute of Internal Auditors
www.theiia.org

The Institute of Internal Auditors (IIA) is an international professional organization that meets the needs of a worldwide body of internal auditors. IIA focuses on issues and advocacy in internal auditing, governance and internal control, IT audit, education, and security worldwide. The Institute provides internal audit practitioners, executive management, boards of directors, and audit committees with standards, guidance, best practices, training, tools, certification, executive development, research, and technological guidance for the profession.

Internal Revenue Service
www.irs.gov/Charities-&-Non-Profits

The IRS has tax information for charities and other not-for-profit organizations.

International Federation of Accountants
www.ifac.org

The International Federation of Accountants (IFAC) is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. Its mission is to serve the public interest by contributing to the development of high-quality standards and guidance; facilitating the adoption and implementation of high-quality standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms and to high-quality practices by professional accountants, and promoting the value of professional accountants worldwide; and speaking out on public interest issues.

IT Governance Institute
http://www.isaca.org/ITGI/Pages/default.aspx

Established by the Information Systems Audit and Control Association and Foundation (ISACA) in 1998, the IT Governance Institute (ITGI) exists to assist enterprise leaders in understanding

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and guiding the role of IT in their organizations. ITGI helps senior executives to ensure that IT goals align with those of the business, deliver value, and perform efficiently while IT resources are allocated properly to support business goals, optimize business investment in IT, and manage IT-related risk and opportunities appropriately through original research, symposia, and electronic resources. ITGI helps ensure that boards and executive management have the tools and information they need to manage the IT function effectively.

National Association of College and University Business Officers
www.nacubo.org

The National Association of College and University Business Officers (NACUBO) represents chief administrative and financial officers through a collaboration of knowledge and professional development, advocacy, and community. Its vision is to define excellence in higher education business and financial management.

National Association of Corporate Directors
www.nacdonline.org

Founded in 1977, the National Association of Corporate Directors (NACD) is the premier educational, publishing, and consulting organization in board leadership, and the only membership association for boards, directors, director-candidates, and board advisers. The NACD promotes and advances exemplary board leadership through high professional board standards; creates forums for peer interaction; enhances director effectiveness; asserts the policy interests of directors; conducts research; and educates boards and directors concerning traditional and cutting-edge issues.

National Council of Nonprofits
www.councilofnonprofits.org

The National Council of Nonprofit Associations seeks to guarantee that all not-for-profits have access to knowledge and resources through the national network of state associations and that the not-for-profit sector retains a vibrant and strong voice at the national and state level that speaks to its issues and those of their constituencies.

New York Stock Exchange
https://nyse.nyx.com/

The New York Stock Exchange (NYSE) is a not-for-profit corporation that provides a self-regulated marketplace for the trading of financial instruments. Its goal is to add value to the capital-raising and asset-management processes by providing the highest-quality and most cost-effective trading environment. The NYSE works to promote confidence in and understanding of the financial trading process and serves as a forum for discussion of relevant national and international policy issues. The NYSE has taken a leadership role in corporate governance issues through its participation in the Blue Ribbon Committee on Improving the

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Effectiveness of Corporate Audit Committees and, more recently, in its formation of the NYSE Corporate Responsibility and Listing Standards Committee.

Nonprofit Coordinating Committee of New York, Inc.
www.npccny.org

The Nonprofit Coordinating Committee of New York, Inc., (NPCC) is the voice and information source for New York nonprofits. NPCC is an umbrella organization representing and serving some 1,500 member nonprofit 501(c)(3) organizations throughout New York City, Long Island and Westchester. NPCC publishes a monthly newsletter, New York Nonprofits, offers workshops and roundtables on management issues, provides cost-saving vendor services, manages a Government Relations Committee that works on sector-wide government and legislative issues, and maintains a website loaded with information on operating a nonprofit.

Office of Management and Budget Circulars
www.whitehouse.gov/omb

The Office of Management and Budget (OMB) publishes the circulars that include federal regulations related to audits of not-for-profit organizations that receive and expend federal funds.

Public Company Audit Oversight Board
http://pcaobus.org

The Public Company Audit Oversight Board (PCAOB) is a nonprofit corporation established by Congress to oversee the audits of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports. The PCAOB also oversees the audits of broker-dealers, including compliance reports filed pursuant to federal securities laws, to promote investor protection.

Society for Corporate Governance
www.societycorpgov.org

Founded in 1946, the Society for Corporate Governance, Inc. (the society) seeks to be a positive force for corporate governance, providing news, research and best-practice advice, as well as professional development and education through seminars and conferences.

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