

BENEFITS OF AUDIT COMMITTEES AND AUDIT COMMITTEE CHARTERS FOR NOT-FOR-PROFIT ORGANIZATIONS

“In establishing a charter for a not-for-profit organization’s audit committee, the committee’s composition is critical. While it will differ from organization to organization, each audit committee must determine the appropriate number of members who are independent of management and have the required financial expertise.”

– Cheryl R. Olson, CPA, Director, Council Financial Consulting, Girl Scouts of the USA; and member of the AICPA Not-for-Profit Audit Committee Toolkit Task Force

“The AICPA initiative to strengthen its NPO Audit Committee Toolkit at this stage in the financial crisis, with the crisis still having a significant impact on the NPO community, represents a major contribution to NPOs and their stakeholders.”

– Jerry M. de St. Paer, Director, Ronald McDonald House of NY; former Trustee and Audit Committee Chair, North Central College; Member, Finance Advisory Committee, Bermuda Hospital Trust Fund; Executive Chairman, Group of North American Insurance Enterprises; and member of the AICPA Not-for-Profit Audit Committee Toolkit Task Force

Success for not-for-profit organizations (NPOs), 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. NPOs can access expertise in all these areas, and in the process more successfully fulfill their mission and member goals, through the knowledge and experience of audit committees.

Getting Started with an Audit Committee Charter

The first step NPOs can take to improve their fiscal accountability and governance, and reap the full range of benefits audit committees can deliver, is to create an audit committee charter approved by the Board of Directors. The charter outlines committee members’ roles and responsibilities, and the level of financial experience committee members should have. Since NPOs have their own laws and regulations to consider, the audit committee charter should be based on each NPO’s legal requirements.

NPOs that already have an audit committee should periodically review and update their audit committee charter. Reviews are typically performed annually; however, frequency can vary depending on the NPO’s type and size. NPOs should also consider having their audit committee members conduct a self-evaluation to gauge and improve their effectiveness.

Delivering Value to NPOs

An audit committee can significantly contribute to a NPO’s operations and long-term success. It generally assists the NPO’s Board of Directors in its oversight role including the integrity of the organization’s financial statements and disclosures, internal control over the financial reporting process, the performance of the internal audit function, and compliance with legal and regulatory requirements.

An effective audit committee can produce the following benefits for NPOs:

- **Improved Financial Practices and Reporting.** An audit committee should meet with the CEO and financial officers to review and monitor results related to maintaining internal controls and preparing financial reports. It can

AUDIT COMMITTEE BRIEF

From the Audit Committee Effectiveness Center

For more information:

Briefs and Articles

Self Evaluation: A Primer for Audit Committees

<http://www.aicpa.org/ForThePublic/AuditCommitteeEffectiveness/AuditCommitteeBrief/DownloadableDocuments/Self%20Evaluation.pdf>

Audit Committee Best Practices: Questions for Executive Sessions

http://www.aicpa.org/ForThePublic/AuditCommitteeEffectiveness/AuditCommitteeBrief/DownloadableDocuments/Audit_Committee_Best_Practice_Executive_Sessions.pdf

Eight Habits of Highly Effective Audit Committees

Publications and Whitepapers

The AICPA Audit Committee Toolkit: Not-for-Profit Organizations

Effective Enterprise Risk Oversight: The Role of the Board of Directors—COSO

<http://www.aicpa.org/ForThePublic/AuditCommitteeEffectiveness/AuditCommitteeBrief/DownloadableDocuments/Effective%20enterprise%20risk%20oversight.pdf>

Strengthening Enterprise Risk Management for Strategic Advantage—COSO

<http://www.aicpa.org/ForThePublic/AuditCommitteeEffectiveness/AuditCommitteeBrief/DownloadableDocuments/Strengthening%20Enterprise%20Risk.pdf>

Management Override of Internal Controls: The Achilles' Heel of Fraud Prevention—The Audit Committee and Oversight of Financial Reporting

http://www.aicpa.org/ForThePublic/AuditCommitteeEffectiveness/AuditCommitteeBrief/DownloadableDocuments/management%20override%20achilles_heel.pdf

Events

AICPA National Audit Committee Forum: July 29-30, 2010—Washington, D.C.

This new conference addresses all activities that an audit committee oversees, from financial reporting and the external audit plan to risk management.

also provide strategic counsel. Meetings are typically held quarterly, although for some NPOs meetings may be held more frequently.

- **More 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 NPO leadership and auditors in creating and periodically reviewing an organization-wide fraud prevention and detection program, and ensuring that investigations are undertaken when fraud is uncovered. They can also encourage the organization's leadership 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, which is usually performed annually.
- **Enhanced Internal Audit Function.** An organizational structure that has the internal audit team 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 compliance responsibilities, and ensure that the organization adjusts practices and internal controls as needed.
- **Stronger External Audit Function.** An audit committee should meet with external auditors to monitor their services and activities to ensure that independence is maintained between the external auditor and the organization's management team. An audit committee also meets with external auditors to discuss their independent observations on management's ability to maintain strong internal controls, appropriate financial reporting and sound business practices. Depending on the NPO's size, meeting frequency ranges from once to four times per year, with meetings being held more often for larger NPOs.
- **Heightened Credibility Among Stakeholders.** An audit committee that has a proper charter communicates a message of independence, reliability and trust. It also builds confidence among present and potential endowment providers, trusts, top-level donors, and lenders. NPOs 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.

DISCLAIMER:

This publication has not been approved, disapproved or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, nor does it represent the views of or an official position of the American Institute of Certified Public Accountants. This article is not intended as legal, accounting or other professional advice and should not be relied upon as such. If legal, accounting or other professional advice or expert assistance is required, the services of a competent professional should be sought.

© 2010 AICPA. All Rights Reserved. Requests for permission to re-print or re-use AICPA content should be directed to copyright@aicpa.org.