



## Audit Committee Member Roles and Responsibilities

**PURPOSE OF THIS TOOL:** The following information illustrates how the audit committee might be structured and assigns roles and responsibilities between the audit committee and finance committee.

Not-for-profits should carefully consider the roles and responsibilities for both the formation of the committee and the members considered for the committee. Not-for-profits should tailor the committee's roles and responsibilities to best fit the organization considering the following:

- Size of the organization
- Diversity of organizational revenues
- Complexity of financial position and statements
- Geographic footprint of the organization's staff and mission

The organization should consider having a minimum of three members of its audit committee with at least one of the members being a board member or one member having financial expertise, or both. Furthermore, the organization should carefully consider the state requirements on the number of its members serving the audit committee and the finance committee (for example, California requires organizations to have more than half of its audit committee to be independent of the finance committee). The audit committee generally assists the board in its oversight of the following:

- Integrity of the organization's financial statements
- Internal control over the financial reporting process
- External auditor's qualifications, independence, and performance
- Performance of the internal audit function
- Compliance with legal and regulatory requirements
- Review of (or delegation thereof) the IRS Form 990

Specific responsibilities for an audit committee are typically set forth in the organizations *Financial Policy Manual* (or an audit committee charter), which should be approved by the board of directors. Audit committee charters will vary by organization due to factors such as size, type of not-for-profit, and complexity of the organization's business model.

The following is an illustrative list of responsibilities for audit committee members:

### Audit Committee Process and Procedures

- Develop audit committee charter
- Conduct annual review of the audit committee charter
- Develop annual calendar based upon audit committee charter that ties to the board calendar



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

- Set agenda for the audit committee meetings based upon the audit committee charter
- Determine audit committee information and communication framework (that is, information requirements from management, reports, format, and timeliness)
- Ensure meeting minutes are prepared, documented, and approved by the audit committee
- Provide reports to the board of directors
- Educate the other board members on the understanding of the financial statements and financial statements risks
- Prepare annual audit committee report
- Conduct annual self-assessment of effectiveness and efficiency of the audit committee and evaluation
- Review organization's procedures for reporting of problems, including whistle-blower hotline and other communication methods
- Determine audit committee's process for "special investigations" (that is, whistle-blower allegation, antifraud plan compliance, discovery of error, illegal acts, and so on)
- Review reports from internal audit function
- Aware of legal and regulatory requirements for financial reporting and auditing of financial statements
- Review of IRS Form 990

### **Oversight of the Financial Reporting Process**

- Meet privately and separately with CEO, CFO, independent external auditor, chief audit executive, General Counsel, senior management, and audit committee members only, and others as appropriate to the organization (executive sessions)
- Review critical accounting policies, practices, judgments, estimates, significant issues, significant transactions, adjustments, unusual items, complex issues, and business arrangements
- Review annual audited financial statements including any federal Office of Management and Budget (OMB) A-133 reports
- Review information provided to watchdog agencies
- Obtain explanations from management on all significant variances
- Question management and external auditor on significant financial reporting issues
- Facilitate the resolution of disagreements between management and the external auditor regarding financial reporting
- Determine when a subject matter expert is required and hire advisors when needed
- Determine and designate the audit committee's financial expertise (or designee)
- Oversee system for compliance with legal and regulatory requirements (for example, OMB circulars, state fundraising and licensing)
- Oversee adequacy of the organization's system of internal control
- Review management letters containing the recommendations of the external auditor and management's responses

**Oversight of the External and Internal Audit Functions**

- Provide pre-approval of all audit and permitted nonaudit services performed by the external auditor
- Appoint or replace external auditor
- Concur in the appointment of the chief audit executive—internal audit
- Review audit plan and scope of audit to be conducted by internal audit and external auditor
- Conduct evaluations of internal auditor and external auditor
- Oversee system of risk assessment and risk management as determined by the board of directors (audit committee primarily focused on financial risk)

**Limitation of Audit Committee’s Role**

Although the audit committee has the responsibilities set forth in a charter, it is not the responsibility of the audit committee to plan or conduct routine audits or to be the primary determinant that the organization’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 external auditor, and the audit committee has an oversight responsibility to see that the objective is achieved.

**Audit Committee Versus Finance Committee<sup>1</sup>**

In general, 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 generally assigned as follows:

Audit Committee	Finance Committee
The audit committee	The finance committee
(a) reviews the financial statements of the organization and other official financial information provided to the public;	(a) oversees the preparation of the annual budget and financial statements. The finance committee ensures that budgets and interim financial statements are prepared;
(b) has oversight for ensuring that reports are received, monitored, and disseminated appropriately;	(b) oversees the administration, collection, and disbursement of the financial resources of the organization as well as the policies and procedures related to the financial resources;

*(continued)*

<sup>1</sup> Originally published as *What’s The Difference? Audit Committee vs. Finance Committee*, this paper has been adapted and edited with the consent of the Nonprofit Risk Management Center at [www.nonprofitrisk.org](http://www.nonprofitrisk.org).

Audit Committee	Finance Committee
(c) provides oversight of the organization’s systems of internal controls, including overseeing 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 organization meets the re-chartering requirements of its national organization);	(c) advises the board with respect to making significant financial decisions;
(d) oversees the annual independent audit process, including the recommended engagement of the external auditor and receiving of all reports, and management letters, from the independent certified public accountants;	
(e) reviews the annual information returns, (IRS Form 990, related schedules, and forms) 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 external auditor or auditing firm. Many audit firms also prepare the federal and state tax returns for their nonprofit audit clients; and	(e) oversees the preparation and implementation of the governance policies referenced in the Form 990: conflict of interest, document retention, whistle-blower, review of executive compensation, endowments, investments, and so on; and
(f) reviews the organization’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).	(f) should ensure that joint membership between the audit committee and the finance committee is appropriate and meets local laws and regulations.
The audit committee shall have such other authority and perform such other duties as may be delegated to it by the board.	

## ***Audit Committee Member Roles and Responsibilities***

Some joint membership between the audit committee and the finance committee may exist. Organizations 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 certain members of the audit committee that 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 organization.

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