How Often Should a Nonprofit Change Auditors?

Many times organizations will ask us when should they change auditors and/or audit firms. They have heard of the Sarbanes-Oxley requirements and want to make sure they are doing their fiduciary duty in selecting and hiring the appropriate firm for their needs and in accordance with laws and regulations.

Currently, in the State of Washington, there is no requirement that a nonprofit organization must change auditors periodically. Even under Sarbanes-Oxley, publicly traded companies are not required to change audit firms, although they are required to change the lead auditor every five years.

There are pros and cons of rotation. Pros include a reduction of the possibility that the auditor will become too close to management; cons include additional cost – for the proposal process itself, and the learning curve required of the new firm with the resultant loss of institutional knowledge. It has been shown that, historically, many audit failures have occurred in contexts where the auditor was relatively new to the client and was less able to spot something out of line.

Some states have mandatory rotation rules for state agencies, but there is no federal law on the subject, except a requirement for federal grantees (in Uniform Guidance 2CFR 200.319) that says major purchases shall be subject to competitive bids, unless otherwise justified. However, that requirement does not specify any maximum time period after which new bids must be obtained.

Audit firm rotation is often costly and time consuming for staff and the audit committee. Staff must spend extra time explaining the financial system to a new auditor, and fees tend to be higher on short-term engagements because the auditor's start-up costs must be recovered over a shorter period. For a nonprofit organization, it makes sense to review the auditor relationship every 5-7 years (if there are other firms in the area that understand nonprofits and your type of nonprofit in particular) and/or ask for a change in lead engagement manager, even if you don't change firms. You may decide not to change even if you have the option, but the exercise can be valuable.

In an interesting article on auditor rotation by Professor Wanda A. Wallace of College of William and Mary, Williamsburg, VA, she asks the question, "Would you change your doctor every three years believing you'd get better medical attention?" – a humorous and valid point.

Here at Jones & Associates, we understand the importance of periodically rotating engagement staff to ensure each year's audit is viewed with "fresh eyes". This is also useful to us as we change audit procedures and areas of focus each year for every organization. It is important in any audit, whether it is with a tenth-year or first-year audit, to maintain a healthy skepticism throughout the audit. By changing procedures and areas of focus, and periodically rotating staff, we believe we greatly enhance our professional skepticism and provide a better audit to our clients.

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