



When to Consider Having an Audit

Are we required to have an audit?

The short answer is: maybe.

Not every nonprofit organization is required to obtain an audit. There are multiple factors depending on annual revenues, sources of funding, or state and federal law. Sometimes, an organization may simply choose to have an audit completed!



So when *ARE* we required?

Washington state legislature breaks out requirements for charitable organizations in a three tier system.

- Tier 1 - Revenues less than \$1,000,000 - an audit is not required.

- ◊ Must meet the financial reporting requirements specified in application for registration/renewal of Charitable Organizations ([RCW 19.09.075](#))

- Tier 2 - Revenues between \$1,000,000 and \$3,000,000 averaged over the three preceding years - an audit could be required.

- ◊ Charitable organizations must, in addition to reporting requirements in [RCW 19.09.075](#), make Form 990 (or 990F, 990EZ, 990T) or an audited financial statement available to the public upon request or accessible to the public on the internet.

- Tier 3 – Revenues greater than \$3,000,000 averaged over preceding three years – an audit is required.

- ◊ Charitable organizations must, in addition to the reporting requirements in [RCW 19.09.075](#), obtain an independent, third-party audit of its financial records for the preceding accounting year. This audit report must be made available in paper form to the public upon request or accessible to the public on the internet.

If your organization has been in existence for less than 3 years, average gross revenue should be based on the number of years the organization has been in existence to determine the applicable tier.

Additionally, a source of funding or a grant application may require an audit. For example, federal funding and spending may trigger a need for a “Single Audit” - different in scope from a regular independent audit. It is important for organizations to review individual funding requirements when making a decision on whether to seek an audit.

Are there other reasons to get an audit?

With an audit, an organization receives an auditor’s opinion – a report stating that the financial statements are presented fairly, in all material respects, in conformity

with the applicable financial reporting framework. This allows for more transparency with funders, showing a commitment to fiscal accountability.

Additionally, auditors will gain an understanding of not only the organization's financials, but also an analysis of the organization's internal controls. Internal controls help prevent or detect fraud or errors. Although an audit's purpose is not to detect fraud, it will examine an organization's internal controls and help recommend best practices.

In all, an independent audit can help an organization show transparency and integrity within itself and to the public.

What are alternatives to an audit?

If an organization is not seeking the level of assurance as provided by an audit, there are different services to consider, such as a financial statement review or compilation. See further discussion at our article: [Compilation, Review and Audit: A Comparative Overview](#).

Additional Resources

Washington State Legislature:

Audited financial report – Tiered reporting requirements: [WAC 434-120-107](#)

Tiered financial reporting requirements: [RCW 19.09.541](#)

Charitable organizations –Application for registration or renewal: [RCW 19.09.075](#)

Blue Avocado: [Is it Time for an Audit?](#)

National Council of NonProfits: [Nonprofit Audit Guide](#)

