

What Does and Audit Committee Do?

When considering an annual examination of finances, some organizations appoint an Audit Committee to manage the process. In smaller organizations, the Finance Committee often performs this function; this is perfectly acceptable as long there is a clear outline of duties and written procedures to avoid any potential conflicts.

If you establish a separate Audit Committee the guidelines for membership are similar to those of your Finance Committee. The committee may be composed of a few members of your board and may include the chair of your Finance Committee. You will want to include board members with some knowledge and expertise in the area of financial management on your Audit Committee. Board members representing accounting/auditing firms should not be involved.

Role of an Audit Committee

The Audit Committee (if your Finance Committee performs this function, substitute “Finance Committee for “Audit Committee”) is charged with making a recommendation to the full Board for the type of financial examination most suitable for the organization in order to meet the goals of professional management, compliance, and transparency.

The Audit Committee is also charged with hiring the auditor. The committee should draft an RFP detailing the scope of work expected (staff can help).

The Audit Committee should also develop a hiring process including a timeline for submission by potential auditors and criteria for selection such as cost, independence from the organization, and professional qualifications. Be thoughtful of any potential conflict issues such as hiring a firm that is represented by an individual who serves on your Board of Directors.

The Audit Committee then makes a recommendation to the board as to the appointment of the auditor.

The Audit Committee will also work with staff and the auditor during the audit, and may modify the audit process for special investigations if necessary.

When complete, the Audit Committee presents to the board for approval, the auditor’s management report on the financial statement and the management letter. Both the audit and the Form 990 are reviewed and approved by the full board.

The Audit Committee recommends to the board and staff, adjustments to policies and procedures based on the financial report and management letter. The management letter is similar to a goal setting or strategic plan for the organization that will help to improve financial management and governance practices and reduce future risk.