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What is a nonprofit audit committee?

The audit committee is a subcommittee of the board. Generally speaking, the board delegates authority to the audit committee to perform certain specific tasks; however, the full board still retains oversight authority and the audit committee reports back to the board and provides recommendations. Additionally, in California, pursuant to the Nonprofit Integrity Act (California Government Code §12586), each nonprofit that receives or accrues gross revenues of \$2 million or more in any year must have an audit committee, and meet certain other accounting, oversight and governance requirements. The audit committee oversees but is not involved in the day-to-day activities of the nonprofit's accounting function. The audit committee also oversees the work of the outside auditor, if there is one. The accounting function includes, for example, such items as timely and correctly recording and reporting transactions, internal controls, financial fraud prevention, and other select risk management areas. The list of audit committee responsibilities can be extensive. Thus, it is important that the board and the audit committee reach a mutual understanding regarding the specific areas over which the committee will exercise oversight.

Why does a nonprofit want to have an audit committee?

Oversight of the nonprofit's accounting function and the activities of the outside auditor by necessity involves technical accounting and auditing issues, and requires a certain amount of time commitment. The board performs those oversight responsibilities, unless the board appoints an audit committee. In light of the accounting and auditing issues, the time commitment, and the fact that many nonprofit boards have numerous members, handling accounting function oversight at the board level might not be most practical. Thus, even if a nonprofit's gross revenues are below the \$2 million Nonprofit Integrity Act threshold and an audit committee is not legally required, it still makes sense in many situations for the board to at least consider whether it would be helpful to appoint an audit committee. The formation of an audit committee can also be helpful to the executive officers such as the CEO and CFO. Although the full board still retains oversight authority, with an audit committee in place most of the oversight of the accounting and other related functions can be handled in a more manageable environment primarily between the CEO and CFO, and the members of the audit committee, without the necessity of full board involvement.