The Little Paper About Nonprofit Audit Committees

Dave Tate, CPA, Esq.
http://davidtate.us
tateatty@yahoo.com

(These materials are updated periodically--this version was updated 9.26.08)

Contents Overview:

So . . . you have become, or are thinking about becoming, an audit committee member for a nonprofit, and you would like additional information about your audit committee member responsibilities, and how to go about satisfying those responsibilities. This paper will provide you with a detailed overview to help you on your way.

Please note, however, that this paper is a summary of complicated materials, does not provide legal, accounting or other professional advice, and does not apply to any particular person, nonprofit entity or situation. Consult with a professional about your situation.

The Business Judgment Standard

California Corporations Code §5231, for nonprofit public benefit corporations, and §7231, for nonprofit mutual benefit corporations, in pertinent part provide that:

(a) A director shall perform the duties of a director, including duties as a member of any committee of the board upon which the director may serve, in good faith, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

(b) In performing the duties of a director, a director shall be entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by: (1) one or more officers or employees of the corporation whom the director believes to be reliable and competent in the matters presented; (2) counsel, independent accountants or other persons as to matters which the director believes to be within such person's professional or expert competence; or (3) a committee of the board upon which the director does not serve, as to matters within its designated authority, which committee the director believes to merit confidence, so long as, in any such case, the director acts in good faith, after reasonable inquiry when the need therefor is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

Thus, the business judgment standard for a board member of a nonprofit entity requires the director, including a board member who serves as an audit committee member, to perform duties loyally, in good faith, without self interest, in a manner that the director believes to be in the best interests of the entity, and with the care, including reasonable inquiry, as an ordinary prudent person in a like position would use under similar circumstances. A director may not close his or her eyes to what is going on with respect to the entity's business and financial affairs. The director has a duty to be proactive. In relying on the opinions or reports of other people, the director also must act in good faith, conduct reasonable inquiry, and be free of any knowledge that would cause reliance on data and reports received from others to be unwarranted. "In a like position . . . under similar circumstances" refers to the situation that exists at that time, including the individual director's knowledge, experience and expertise. Thus, cases have held that a director who has specific expertise may be expected to use that expertise.

California Corporations Code §9241 contains similar language for nonprofit religious corporations. However, §9241 replaces " . . . as an ordinarily prudent person in a like position would use under similar circumstances", with " . . . as is appropriate under the circumstances." Section 9241 also allows for appropriate reliance on "religious authorities and ministers, priests, rabbis, or other persons . . . ."

For the most part, the activities that a nonprofit audit committee is required to perform are unspecified. The committee activities will depend on the financial size of the nonprofit, the requirements and expectations of the sources of funds (governmental and non-governmental), the type of outside auditor financial statement evaluation required (i.e., audit, review, compilation), and the expertise of the board and audit committee members. Depending on the circumstances, the financial statements of a nonprofit may require an audit (and possibly an enhanced government OMB A-133, or single audit), review or compilation, or a combination thereof.

The California Nonprofit Integrity Act

With respect to nonprofit audit committees, the California Nonprofit Integrity Act at Cal. Gov. Code §12586 in part requires:

-Specified charitable corporations, unincorporated associations and trustees, that receive or accrue in any fiscal year gross revenues of $2,000,000 or more (exclusive of grants from, and contracts for services with, governmental entities for which the government requires an accounting of the funds received) to have annual financial statements, using generally accepted accounting principles, that are audited by an independent certified public accountant (adhering to the Government Auditing Standards, U.S. Comptroller General, Yellow Book) in conformity with generally accepted auditing standards. The Office of the Attorney General has stated that the audited financial statements and notes to the statements must be released to the public, but not the management letter which is not part of the audited financial statements; and that gross revenue is the same as total revenue which appears on Line 12 of IRS Form 990 for public charities, and Line 12, column (a) for private foundations (follow Form 990 and 990PF instructions).

-Each such nonprofit corporation must have an audit committee appointed by the board of directors. The audit committee may include people who are not members of the board, but may not include any members of the staff, including the president, chief executive officer, treasurer or chief financial officer. If the charitable corporation has a finance committee, the audit committee must be separate from the finance committee. Members of the finance committee may serve on the audit committee, but the chair of the audit committee may not be a member of the finance committee, and finance committee members must comprise less than one-half of the membership of the audit committee. The California Office of the Attorney General has stated that there is no requirement that the entity have a particular number of audit committee members--that one member may be sufficient--however, I suggest that there be three or more members to promote expertise, discussion, interaction and feedback.

-Members of the audit committee cannot receive any compensation from the charity in excess of the compensation, if any, received by members of the board for service on the board, and shall not have a material financial interest in any entity doing business with the charity.

-Subject to the supervision of the board, the audit committee shall recommend to the board the retention and termination of the outside auditor, and may negotiate the outside auditor's compensation, on behalf of the board.

-The audit committee shall confer with the outside auditor to satisfy its members that the financial affairs are in order, and shall review and determine whether to accept the audit, shall assure that any non-audit services performed by the auditing firm conform with standards for auditor independence, and shall approve performance of non-audit services by the auditing firm.

Outside Auditor Communications with the Audit Committee

Statement on Auditing Standards (SAS) 54, 99, and 100, and recently enacted Standards 109, 112 and 114, require that the outside auditor communicate specific matters to the audit committee. Those Standards are summarized below.

Illegal Acts by Clients. The outside auditor should assure himself or herself that the audit committee, or others with equivalent authority, is adequately informed about illegal acts that come to the auditor’s attention. See Statement on Auditing Standards 54.

Auditor’s Communication with Those Charged with Governance. Statement on Auditing Standards (SAS) 114 requires the outside auditor to determine that certain matters relating to the audit of the financial statements are communicated to those charged with governance, which at least includes the audit committee, and may include the board.

The auditor should have access to the audit committee, the chair and other members of the audit committee should meet with the auditor periodically, and the audit committee should meet with the auditor without management present at least annually.

The auditor must at least communicate regarding the auditor's responsibilities under generally accepted auditing standards; the planned scope, performance and timing of the audit (including matters relating to internal controls); the extent that the auditor may use work of internal audit or outside accountants; and significant findings from the audit including but not limited to possible fraud, possible illegal acts, and material deficiencies or errors.

Other matters that the auditor may consider discussing with the audit committee include the committee members' views about the company's governance; objectives and strategies relating to risks that may result in material misstatement; internal controls and the committee's oversight of internal controls; the possibility of fraud; communications with regulators; the committee's actions in response to previous communications with the auditor; the committee's actions in response to developments in financial reporting, laws, accounting standards, and corporate governance practices; and other matters that the audit committee members believe are relevant to the audit of the financial statements.

Pursuant to SAS 114, the auditor should also communicate significant findings from the audit, such as significant difficulties, qualitative aspects of the accounting practices, uncorrected misstatements, disagreements with management, material corrected misstatements, and other significant issues that come to the auditor's attention.

Statement on Auditing Standards 114 states that the auditor should evaluate whether the communication between the auditor and those charged with governance has been adequate. Inadequate two-way communications may indicate an unsatisfactory control environment, which may influence the auditor's assessment of the risks of material misstatement, or the auditor's ability to perform that audit.

<u>Consideration of Fraud in a Financial Statement</u>. Statement on Auditing Standards 99 requires the outside auditor to ask management about allegations of fraud or suspected fraud; management's understanding about the risks of fraud; programs and controls established to mitigate identified fraud risks, or that prevent, deter, and detect fraud; how management communicates to employees its views on business practices and ethics; and whether management has reported to the audit committee on how the company's internal control serves to prevent, deter, or detect material misstatements due to fraud.

The auditor also should inquire directly of the audit committee (or at least its chair) regarding the audit committee's views about the risks of fraud and whether the audit committee has knowledge of any fraud or suspected fraud affecting the company. The auditor also should obtain an understanding of how the audit committee exercises oversight of the company's assessment of the risks of fraud and the programs and controls the company has established to mitigate those risks.

Interim Financial Information. In a review engagement, such as with respect to quarterly financial statements, the outside auditor performs certain required procedures, which may cause the auditor to become aware of significant information regarding the financial statements. Statement on Auditing Standards 100 requires the outside auditor to communicate that information to management and the audit committee as appropriate. Additionally, when conducting a review of interim financial information, the auditor should determine whether any of the matters described in SAS 114 have been identified. If any such matters are identified, the auditor should communicate them to the audit committee or be satisfied that those matters have been communicated to the audit committee by management.

Understanding the Entity and its Environment. Statement on Auditing Standards 109 requires the outside auditor to obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements (whether due to error or fraud), and to design the nature, timing and extent of audit procedures. The provisions of SAS 109 apply for all audits, and are not limited to an evaluation of internal control under Sarbanes-Oxley §404.

Statement on Auditing Standards 109 describes “internal control” as a process–effected by those charged with governance, management, and other personnel–that is designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control consists of five interrelated components: control environment, risk assessment, information and communication, control activities, and monitoring.

The “control environment” sets the tone of the organization, and influences the control consciousness of its people. The primary responsibility for the prevention and detection of fraud and error rests with the people who are charged with governance and the management of the entity. The outside auditor is required to consider the entity’s processes relating to communication and enforcement of integrity and ethical values; commitment to competence; participation of those charged with governance; management’s philosophy and operating style; organizational structure; assignment of authority and responsibility; and human resource policies and practices.

With respect to evaluating the participation of those charged with governance, SAS 109 specifically identifies the following criteria: (1) independence from management, (2) the experience and stature of those charged with governance, (3) the extent of their involvement in and scrutiny of activities, (4) the information that those charged with governance are provided, (5) the degree to which difficult questions are raised and pursued with management, (6) the ability of those charged with governance to evaluate the actions of management, (7) interaction with internal and outside auditors, (8) communications between management and those charged with governance, and (9) the ability of those charged with governance to understand the company's business transactions and evaluate whether financial statements are presented fairly in conformity with generally accepted accounting principles.

The outside auditor is required to evaluate whether a deficiency in internal control is sufficiently significant to require communication of the deficiency to the audit committee, pursuant to SAS 112. Additionally, SAS 109 states that a significant internal control deficiency, or a lack of appropriate corrective response by management to a material deficiency, may raise doubt about management's integrity, and whether it is possible to audit the financial statements.

Communicating Internal Control Related Matters Identified in an Audit. Statement on Auditing Standards 112 applies for all audits, and its application is not limited to an evaluation of internal control under Sarbanes-Oxley §404.

Each of the following is an indicator of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control:

-Ineffective oversight of the company's financial reporting and internal control by those charged with governance;

-Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;

-Identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the company's internal control, even if management subsequently corrects the misstatement;

-An ineffective internal audit function or risk assessment function for a company for which those functions are important to the monitoring or risk assessment component of internal control;

-For complex entities in highly regulated industries, an ineffective regulatory compliance function for which associated violations of laws and regulations could have a material effect on the reliability of financial reporting;

-Identification of fraud of any magnitude on the part of senior management;

-Failure by management or those charged with governance to assess the effect of a significant deficiency, and either correct it or conclude that it will not be corrected; and

-An ineffective control environment.

Significant control deficiencies or material weaknesses in control identified during the audit must be communicated in writing to management and to the audit committee (and perhaps the board), including significant deficiencies and material weaknesses that were communicated in the previous audits, and that have not yet been remedied. The auditor's responsibility to communicate significant deficiencies and material weaknesses exists even if there has been a decision by management or those charged with governance to accept that degree of risk.

<u>Practical Comments and Recommendations in the Current Environment</u>

So . . . how might a nonprofit audit committee more easily go about satisfying its increased diligence? In general, I believe the answer calls for creating throughout the organization an environment of greater understanding and communication about the audit committee's function and responsibilities, what it does, and what it is currently doing. That understanding and communication begins with the tone at the top at the officer, board and audit committee levels, and continues down though the organization.

The audit committee should have a Charter that is agreed to by both the board and the audit committee. The audit committee is a subcommittee of the board. Although the Nonprofit Integrity Act does contain certain audit committee mandates, the audit committee's authority is designated by the board. Additionally, both the board and the audit committee need to understand what the audit committee does and does not do.

Some of the audit committee functions will vary from nonprofit to nonprofit depending on each entity's activities. Of course, for California nonprofits the functions will at least include those required by the Nonprofit Integrity Act. Other functional areas may include, for example, oversight of accounting internal controls, risk of financial misstatement, integrity and tone at the top within the accounting and finance functions, department staffing for accounting and internal audit, if any, risk of financial asset loss and embezzlement, funding source compliance oversight (especially if the entity has a government OMB A-133 audit), and whistleblower processes for financial matters, and communicating those processes throughout the organization. Additional functional areas may include (with the agreement of the board and the audit committee) matters relating to tax reporting and compliance, fund raising and related compliance, employment and workplace oversight, and various other risk management and legal compliance oversight areas.

I have attached to this paper a simplified Charter. The Charter has particular importance because it helps everyone who is involved, including management, the board, the audit committee, the outside auditor, donors and other stakeholders to better understand the activities that the audit committee will perform, and the activities that it is not expected to perform. I favor a Charter that honestly and clearly states the activities that will be performed. It is not worthwhile having a Charter that contains an overly expansive laundry list of items if you are not going to be able to perform those items. I have also attached a quick reference meeting agenda guide, and a discussion about annual audit committee evaluation.

I hope that you have found these materials helpful, and I wish you success with your nonprofit activities. Best regards,

Dave Tate, CPA, Esq.

XYZ Nonprofit Association
Sample Simple Nonprofit Audit Committee Charter

The XYZ Nonprofit Association (hereafter the “XYZ”) shall have an Audit Committee as specified by this Charter. This Charter may be revised from time to time. The Audit Committee shall be subject to the supervision and oversight of the Board of Directors.

The Audit Committee shall be separate from the Finance Committee. Members of the Finance Committee may serve on the Audit Committee; however, the Chairperson of the Audit Committee may not be a member of the Finance Committee, and the members of the Finance Committee shall constitute less than one-half of the membership of the Audit Committee. Members of the Audit Committee may include people who are not members of the Board of Directors, but may not include any members of the staff (employees) or the XYZ, whether or not they are unpaid volunteers, including but not limited to the president, CEO, treasurer or CFO. The Audit Committee may have as few as one member. The Audit Committee shall be appointed by the Board of Directors.

Members of the Audit Committee shall not receive any compensation from the XYZ in excess of the compensation, if any, received by members of the Board of Directors for service on the Board, and shall not have a material financial interest in any entity doing business with the XYZ.

The XYZ shall prepare annual financial statements using generally accepted accounting principles that are audited by an independent certified public accountant in conformity with generally accepted auditing standards. The XYZ shall have an annual audit, which shall be made available for inspection by the California Attorney General, and to members of the public, as specified at Cal. Government Code §12586.

Subject to the supervision of and approval by the Board of Directors, the Audit Committee shall:

1. Recommend the retention and termination of the independent auditor, and may negotiate the independent auditor’s compensation.

2. Review the independent auditor's independence, and the performance of nonaudit services, if any, proposed to be performed by the independent auditor, in accord with applicable auditor independence standards.

3. Meet with the independent auditor for the purpose of overseeing, and oversee the planning and performance of the annual audit.

4. Review the performance of the annual audit with the independent auditor, and discuss with the independent auditor the findings during the audit, and the independent auditor's proposed audit Opinion.

5. Report and provide recommendations to the Board regarding the performance of the annual audit, and audit Opinion proposed to be issued by the independent auditor.

6. As reasonably practicable under the circumstances, and as authorized by the Board, throughout the year review and address significant accounting and audit matters or issues, if any, that come to the Audit Committee's attention, and report to the Board when appropriate.

Quick Reference Meeting Agenda Topic Guidance

Motivating factors: Reduce Liability & Reputation Risk; Increase Due Diligence & Governance; Assist Committee Self Evaluation; Increase Donor Value & Confidence; Enhance/Protect Committee & Nonprofit Reputation.

Overview of General Considerations: Review of audit committee Charter, responsibilities, and mutual understanding of committee activities. Audit committee member qualifications/requirements, changes and disclosures. Independence. Experience. Demeanor. Knowledge. Use of consultants/advisers and legal counsel, for due diligence and discussion facilitation. Issue spotting, evaluation and decision making processes. Set, and timely disseminate pre-meeting agenda. Spot issues and red flags. Ask relevant questions. Investigate facts and circumstances. Receive/obtain input and advice. Evaluate information obtained/not available, and possible need for additional information. Make decisions. Possible issue follow-up, clarification and correction. Possible new agenda issues. Audit committee self-evaluation process. Documenting and reporting committee activities; minutes; reporting to and interacting with the Board. Document retention policies and practices.	Pre-meeting processes; consideration and dissemination of meeting materials and agenda; number, timing and length of meetings. Consideration of executive session, and of potential non-committee members appearing at the meeting. Code of ethics: senior officers and directors; employees. Ethics, legal and whistleblower reporting protections and processes; complaints and entity/corporate investigations. Confidential and anonymous submission, and procedures for and the receipt, retention, and treatment of complaints received regarding accounting, internal controls, and auditing matters, and possible unlawful acts. Understanding the standards of care; the business judgment rule; relying upon other people; and case law. Accounting, internal audit and disclosure officer/employee qualifications. Anti-retaliation polices and practices. Tone at the top.

<u>Overview of Specific Considerations</u>:

Judgment about the quality, not just acceptability, of the entity's accounting and transaction principles, methods, timing and estimates (with management as an active participant in at least part of the discussion).

The clarity, consistency and completeness of entity financial statement accounting information. Consideration of transparency and presentation.

Accounting principles and policies consistently applied.

The financial statement impact of certain items (such as timing of transactions, period cutoffs, accounting policy selection, estimates, contingencies, reserves, revenue recognition, inventories, goodwill, judgments, uncertainties and unusual transactions).

The auditor's responsibilities under GAAS, including, discussions about the acceptability of the entity's internal control for purpose of the audit/review.

All critical accounting polices, principles and practices used, and related changes; consider alternative acceptable practices even if those have not been discussed with management. SFAS 116 and 117, and possible GAGAS (the Yellow Book) applicability; OMB Circular A-133.

Difficulties encountered during the review/audit. Were there any limitations from GAAS or otherwise?

Management's consultation with other accountants.

Analytic and other evaluation of the financial statements.

Period timing and cutoff procedures and practices.

All material communications between the auditor and management, such as management letter, unadjusted differences; internal auditor.

Disagreements between management and the auditor.

All significant matters that come to the auditor's attention.

Off-balance sheet transactions, arrangements, obligations (including contingent) and other entity relationships.

Exempt status endangerment. Fund raising, dues and solicitation procedures. Officer, director or employee receipt, use or purchase of entity assets or resources; conflicts of interest; fraud/embezzlement. Payroll and compensation procedures. Related party transactions (private inurement). Political and lobby activities.

Calculations/communications of costs/contributions ratio.

Possible material misstatement from a GAAP departure.

Change to a less appropriate accounting principle.

Any significant deficiencies in the design or operation of internal control.

Testing for fraudulent or unlawful acts or activities.

Critical matters identified during the review/audit including accounting estimates, management judgments, significant adjustments, disagreements with management, and changes in significant accounting policies.

All alternative treatments of financial information within GAAP that have been discussed with management, the ramifications of alternative disclosures and treatments, and the treatment preferred by the auditor.

Significant review or audit adjustments, including uncorrected misstatements that were determined by management to be immaterial individually and in the aggregate to the financial statements taken as a whole.

Any financial statement material misstatements?

Consideration of MD&A type discussions.

Management use of accounting judgments & estimates.

Loans, credit, transactions, insider trading, or conflicts of interest with or by officers, directors or stakeholders.

Any improvements recommended by the auditor?

Other information included in the financial statements and documents containing the financial statements; footnotes; presentation of pro forma financial information.

Determining and communicating fair market value/tax deductibility for fund raising items, materials and services.

Unrelated business activities, income and income tax; approvals. Tax exempt status. IRS Form 990, Form 990PF; California Form 199.

Allocation of pledges collectible and funds received (unrestricted; restricted; special use); estimated uncollectible; reserves.

Functional expense allocation, including direct and indirect expenses, between program services and supporting activities; reporting. Also for management purposes, to better evaluate specific program/activity economic benefit v. cost associated.

Possible executive compensation issues.

Allocation of receipt/income recognition; expenses/disbursements between outside entities that share, forward or disburse funding sources or programs.

Consideration of Auditor Services: Independent auditor retention; compensation. Understanding of independent auditor services (audit, review, compilation, tax, and possible other services); approval. Timing and planning of the auditor services.	Independent auditor independence; partner/manager rotation. Consideration of GAGAS (the Yellow Book), Single Audit, U.S. Office of Management & Budget Circular A-133.

Areas for Possible Additional Considerations: Issues specific to the entity; specific to the industry. Stakeholder and donor type communication processes. Compliance grant, donation and contact requirements and restrictions. Donation and revenue acceptance policies. Clarify the persons who are responsible for ERISA and pension oversight. D&O insurance coverage. Investments; investment policies; investment procedures.	Compliance with campaign contribution and lobbying laws. Compliance with wage and hour laws. Compliance with employee withholding laws. Employer and workplace policies and procedures regarding hiring, termination, harassment, discrimination and compliance with other labor and employment laws. Risk management and possible liability exposure. Follow-up items, new matters, and other.

Annual Audit Committee Evaluation

New York Stock Exchange Listed Company Manual §303A.07 requires the audit committee of each company listed on the Exchange to conduct an annual performance evaluation. An annual evaluation should be suggested for all public company audit committees, and should be considered by audit committees of reasonably large nonprofit entities and private companies. Prudent audit committee structure and conduct are important to reduce both audit committee and overall entity liability, reputation risk, and damages risk. You can find a more detailed discussion about public and private company audit committee annual evaluations in my separate paper discussing for-profit audit committee responsibilities and risk management.

Serving as an audit committee member requires broad, current subject matter technical knowledge and interest, diligence, leadership and oversight, organization, prudent judgment, inquisitiveness, an appropriate level of skepticism, and effective communication skills. Audit committee work is year round. Issues and deadlines can be demanding. At various levels the members interact not only as a committee, but also with the board, CEO, CFO, outside auditor, legal counsel, tax professionals, internal audit if such exists, and other professionals. Other people also rely on the audit committee's effectiveness. Thus, it only makes sense that the committee should at least once each year take time to step back and review, evaluate and make improvements to its manner of operation, and also consider actions that can be made by other people with whom the committee interacts to improve audit committee effectiveness and ease of operation. Annual evaluation is worthwhile if it only results in improved communications, or one improvement in an area that has the potential for significant risk exposure.

No specific evaluation process or format is required. One possible approach to evaluation is outlined below.

Although not required, there can be advantages to having a facilitator conduct an interactive evaluation approach without performance grading or rating: it can be difficult to construct a questionnaire with standardized questions that would be similarly understood by each of the participants; different people use different grading or rating scales; different people express responses in different manners; and certain important issues will change from year to year. A facilitated approach may allow for better discussion and comment, continuity, follow-up, explanation and compilation.

Also consider whether the evaluation will be conducted under the umbrella of legal counsel. I mention this potential issue; however, I do not consider it to be of seminal importance. The fact is that board and committee members should always consider that their activities may be discoverable, and that they may want to voluntarily make their activities known so as to demonstrate diligent business judgment, or to negate allegations improper intent, recklessness, or intentional wrongdoing.

Issues and topic areas for evaluation will naturally vary somewhat from entity to entity, and from audit committee to audit committee. Thus, I have listed below the evaluation and outline of issues and topic areas as one of the first steps in the evaluation process. Staying within the scope of the audit committee's Charter and responsibilities, the committee should also consider reviewing or evaluating performance in areas of significant possible risk exposure to the nonprofit. To help get your thought process going, the following is an overview of a sample evaluation process, and a list of select possible broad issues and topic areas that may be covered. Consider both successes and possible improvements.

1. <u>Overview of the Evaluation Process</u>:

    -Evaluate and prepare an outline of issues or topic areas (broad and specific) for review and consideration by the participants, allowing for participant comments about additional or discretionary issues or topics that are not on the outline.

    -Develop a list of the people participating in the process, including not only the audit committee members, but also possible other people who may be contacted for comment.

    -Timely disseminate the outline of issues or topics.

    -Determine how interviews will be performed; and conduct private one-on-one interviews with individual participants to obtain feedback and suggestions.

    -Appropriately compile/summarize interview comments and suggestions.

    -Report comments and suggestions to audit committee members, and possibly conduct a committee group review of the process, comments, suggestions and follow-up or next steps.

2. <u>Sample List of Select Possible Issues or Topics to Consider for Evaluation</u>:

    -The committee meeting agenda preparation and dissemination process.

    -Issues pertaining to committee member independence qualification.

    -Issues pertaining to committee member experience to serve as an audit committee member.

    -Committee member knowledge and access to information and education. Are the needs of the committee members being met, so that they are sufficiently knowledgeable about the nonprofit and its industry; relevant significant accounting and auditing topics; legal matters including standard of care; internal controls and risk management; governance; and new developments in those and other areas?

    -Committee and committee member interaction, including interaction between committee members, and interaction and relationships between the committee and other people including the board, senior officers, the independent auditor, the internal auditor, legal counsel, and consultants.

-The process of issue spotting, evaluation and decision making process.

-The contents of the audit committee Charter, if any, and a mutual understanding of the audit committee's activities. The Charter is a requirement for public companies, and is a good idea for many nonprofit entities. The Charter is a prudent document to identify and clarify the audit committee's responsibilities. In addition to the committee itself, it is important for the board, the executive officers, and other stake holders to have an understanding about the committee's responsibilities and limitations.

-Review of the performance of the outside auditor, and the quarterly review and annual audit reports and process.

-Review recent developments in standards of care and reliance upon others.

-Current accounting principles, policies or issues that are significant to the nonprofit.

-Review of the entity's financial and the internal audit (if any) functions.

-Review of processes pertaining to internal controls, evaluating risk management and possible liability and reputation exposure, and compliance with significant laws and regulations that are within the scope of the committee's functions and responsibilities.

-Documenting and reporting committee activities; minutes.

-The committee's use of attorneys and consultants.

-Whistleblower, ethics and complaint handling processes; corporate investigations; and compliance with laws, rules and regulations, including employer, employee and workplace processes.

-Governance, including tone at the top; financial and governance/leadership transparency and appearance.

-Insurance.

-Additional significant topics or issues that should be discussed, or about which the evaluation facilitator should be made aware for purpose of the evaluation process.

* * * * *