

# VI. AUDIT

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Effective Date: April 21, 2008

## A. SELECTION OF AN AUDITOR

Regardless of the size or type of a not-for-profit organization an annual audit can help to improve operations and provide proper accountability for public and private resources. Therefore, it is important that a qualified auditor be selected to perform the audit.

Planning the procurement of a quality audit requires time and effort on the part of the organization; however, resources spent on planning are likely to be rewarded by a smoother, timelier, and often less expensive audit. There must be an accurate determination of the nature and scope of the audit, what auditing standards are applicable, and whether the organization is subject to any special federal or state audit requirements, such as the Single Audit Act.

Full and open competition is basic to an effective procurement process. Encouraging as many qualified firms as possible to submit auditing proposals increases the likelihood that the organization will receive a quality audit at a fair price. Therefore, it is important to clearly communicate the organization's audit needs to potential bidders because firms that do not fully understand the scope of services may not submit a proposal for consideration. Obtaining a list of potential auditors may be difficult for small entities in rural areas. It may be helpful under these circumstances to solicit firm names from larger organizations and from CPAs in the area who have extensive experience auditing governmental and not-for-profit entities.

The auditor should be selected on the basis of professional competence and experience. Criteria to be used in the selection process include:

- 1. Auditor's understanding of the not-for-profit organization's needs and the environment in which it operates. The auditor should be able to identify existing problems and recommend appropriate corrective action.**
- 2. Auditors proposed approach and methodology should be comprehensive and tailored to the needs of the not-for-profit entity.**
- 3. Auditor's staff that are to be assigned to the audit engagement should have specialized training in the area of not-for-profit audits as well as experience auditing other entities. Also, experience in governmental audits should prove beneficial since not-for-profit organizations often receive numerous funding sources from governmental units.**
- 4. The proposed fee should obviously be a consideration; however, studies have shown that the use of audit fee as the primary selection criteria greatly increases the likelihood of a substandard audit.**

After carefully considering the various proposals and making a decision as to the auditor of choice, a formal engagement letter should be signed by the board's designee. This letter, which is

usually prepared by the auditor, should clearly set forth the nature and terms of the engagement and includes, at a minimum:

- 1. Audit scope, objective, and purpose;**
- 2. Deadline for work to be performed;**
- 3. Anticipated cost of audit, with a stated amount not to exceed;**
- 4. Report format;**
- 5. Type and timing of support to be provided to the auditor by your organization;**
- 6. Professional auditing standards to be followed by the auditor in performing the audit; and**
- 7. List of parties, specifically funding agencies, which receive copy of audit report.**

A review of "The Sarbanes-Oxley Act and Implications for Nonprofit Organizations" published by BoardSource (formerly the National Center for Nonprofit Boards) and Independent Sector (a coalition of corporations, foundations, and private voluntary organizations that works to strengthen America's nonprofit organizations) is recommended. The document is found at <http://www.independentsector.org/PDFs/sarbanesoxley.pdf>