

What is a professional practice statement?

This Professional Practice Statement, developed by the Association Forum, is provided as a management tool for associations and individual association professionals, developed by experts in the industry, and recommended as a means to achieve excellence in managing associations and other not-for-profit organizations.

BACKGROUND

Officers and directors of nonprofit associations are subject to fiduciary duties in managing the affairs of the association. In carrying out that responsibility, boards generally establish an audit committee and retain independent auditors to perform an audit of the organization's financial statements, accounting processes and internal systems of control.

This Professional Practice Statement focuses on the role and function of an audit committee and its reporting relationship to the board, which has ultimate authority and responsibility for the direction and operations of the association.

POLICY STATEMENT

The board should designate a group of individuals to oversee the audit process within the organization. For purposes of this practice statement, this group is referred to as the "audit committee." The audit committee reports to the board. The board should adopt a charter for the audit committee which outlines its authority, primary responsibilities and specific duties.

The officers and directors of the association maintain ultimate responsibility for the decisions of the association, and owe fiduciary duties to the association. The duties associated with the audit function are one of the board's fiduciary obligations. As such, decisions regarding audit issues must be made by a committee having the authority of the board. For that reason, the audit committee must be composed primarily, if not exclusively, of board members because only committees consisting primarily of board members are entitled to exercise the authority of the board. Please note that the language of the statement does not prohibit participation by individuals who are not board members. Indeed, it recognizes that, in some organizations, it may not be practical for the audit committee to be composed only of board members. While the participation of individuals who are not board members may be appropriate, it nevertheless is essential that the audit committee consist primarily of board members.

The audit committee should include at least one individual who understands, and can ask meaningful questions regarding, audited financial statements. No one with management responsibilities may serve on the audit committee. However, staff may act as liaison and provide support to the audit committee. In any event, the audit committee should have some opportunity to meet with the independent auditors without any staff present.

The role of the audit committee is separate and distinct from that of the association's finance or budget committee. The primary functions of the audit committee are to oversee the audit of the association's books and records and to review the association's internal financial controls and procedures. As part of its role and function, the audit committee makes a recommendation to the full board regarding the selection, retention, and termination of an independent organization to conduct the audit services. The audit committee, in consultation with staff, should establish the criteria by which a provider of audit services is selected. Specific tasks can be delegated to staff (such as distribution of the request for proposal); however, the audit committee should evaluate responses and make final recommendations. It is ultimately the responsibility of the full board to select the auditors.

It is generally the role and responsibility of the audit committee to review with management and/or the independent auditor the following:

- Review the adequacy of this policy on an annual basis and obtain board approval of any revisions of this policy.
- Review the annual engagement letter, which includes the fee arrangement. In addition, pre-approve any non-audit services provided by the independent auditors, including tax services, before the services are rendered.
- Review the organization's significant accounting policies, practices and financial reporting con-

trols and the adequacy of such controls.

- Review the organization's significant accounting and reporting principles, practices and procedures applied in preparing financial statements. In addition, discuss with the independent auditors their judgments about the quality of the organization's accounting principles used in financial reporting.
- Review the scope and general extent of the independent auditor's general audit, including the factors considered in determining the audit scope, including the major risk factors. The independent auditors should confirm to the committee that no limitations have been placed on the scope or nature of the audit procedures.
- Inquire as to the independence of the independent auditors and obtain from them, at least annually, a formal written statement delineating all relationships between the independent auditors and the organization, including other consulting work, if any, performed by the independent auditors for the organization.
- Review the results of the audit with the auditors and management, including:
 - The independent auditor's audit of the financial statements and their report
 - Matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communications with Audit Committees, as amended (AICPA, Professional Standards, vol 1, Au sec 380) related to the conduct of the audit.
 - Investigate and respond to serious disputes or difficulties arising from the audit, if any.
 - Once management has received and commented on the findings of a draft management recommendation letter, if any, from the auditors, it is the function of the audit committee to receive the final management letter and follow up with management on recommendations on how to better adhere to "best practices" from the auditors.
- Monitor the Association's compliance with legal and regulatory requirements.
- Review annually the Association's Standard of Conduct and Code of Ethics policy, if any, and insure that management has established a system to enforce this policy.

The audit committee should meet at least once per year (via teleconference or in person) to review the independent auditor's report and management letter. The audit committee also should meet with the auditors (without staff present) at least once per year. In addition, the chief staff executive should work to foster an environment of transparency and full disclosure with the auditors and the audit committee.

DISCLAIMER

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REFERENCE LIST

Audit Committee Charter Matrix, AICPA, Inc., 2005

ASAE Nonprofit Audit Committees: A Toolkit

Board Source