Audit Committee Checklist[[1]](#footnote-1)

IS YOUR ORGANIZATION’S AUDIT COMMITTEE ASKING THE RIGHT QUESTIONS?

Use this checklist to review your process. Make notes as needed in the appropriate rows.

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|  | Financial Accounting |  |
| 1 | How adequate are the organization’s internal controls in general?  Have the auditors made any recommendations for improvements in controls? What were they? Why weren’t these problems discovered and fixed before the auditors noticed them?  Have these recommendations been implemented? If not, why? |  |
| 2 | Why did current ratio increase or decrease so much from last year? Are our key sources of revenue rising or falling (either in absolute dollars or as a percentage of a key comparative figure), and why? Same for types of expenses – especially personnel costs. |  |
| 3 | What is in the temporarily restricted net asset number? What is it restricted for? |  |
| 4 | Are there any liabilities that have not been recorded? Why were they not recorded? |  |
| 5 | What is in 'miscellaneous income/expense/assets/liabilities'? |  |
| 6 | Do we believe that our operating reserves are adequate? If not, what are we doing about it? |  |
| 7 | Are we better or worse off financially than we were a year ago? Why? |  |
| 8 | Do we have any designated unrestricted net assets? If yes, are any transfers of such funds approved by the Board? |  |
| 9 | What steps have been taken to ensure adequate computer security in the organization? |  |
| 10 | What are the significant estimates inherent in our financial statements? (E.g., depreciation, fixed assets, and leasehold improvements and allowance for accounts receivable). |  |
| 11 | Did we review those estimates for reasonableness? |  |
| 12 | Were any audit adjustments made as a result of the recently concluded audit? |  |
| 13 | Do the total expenses incurred by the organization exceed total revenues during a particular fiscal period, except when authorized by the Board? |  |
| 14 | Is the current liquidity ratio greater than 1.0? |  |
| 15 | Have all funds from the Reserve Fund been used in support of the mission? |  |
|  | Financial Reporting |  |
| 16 | What are the most critical accounting policies (i.e., most complex, subjective, or ambiguous decisions or assessments) that have the greatest effect on the organization’s financial position? Was the accounting treatment conservative or aggressive, and how does it compare to previous periods?   * Retention Policy * Fraud Policy * Conflict of Interest * Revenue and Expense Recognition |  |
| 17 | What changes have there been in accounting policies or in management’s application of the policies and the use of estimates and judgments? |  |
| 18 | Are the internal financial statements being prepared in a timely fashion? |  |
|  | Oversight of Internal Accounting Controls |  |
| 19 | Do the internal control processes provide reasonable assurance that fraudulent financial reporting will be prevented or subject to early detection? |  |
| 20 | Are the internal control processes periodically reviewed? By whom? |  |
| 21 | How are controls over computer-generated financial information tested? |  |
| 22 | Is the organization in compliance with policy statements and control processes? How has that compliance been documented? |  |
|  | Tax and Regulatory Matters |  |
| 23 | Are we satisfied that there are no activities which might be considered to be in violation of Internal Revenue Code Section 501(c)(3) and/or other applicable code sections? Areas of particular interest are excess lobbying or political expenditures, private inurement, fund-raising practices, employee vs. independent contractor status, executive compensation, and public disclosure of Form 990. |  |
| 24 | How do we satisfy ourselves that the organization is not doing more lobbying than is allowed by the IRS? |  |
| 25 | Do we have any “unrelated business income”? |  |
| 26 | Do we have any possible exposure from issues like unrelated business income? |  |
| 27 | Are there any 'new tax rules' that have had any effect on our organization? Our fund-raising? |  |
| 28 | Are we satisfied there are no situations that could lead to a requirement to repay or denial of future government funding? |  |
| 29 | Are there any unallowable costs? Were there any unexpected variances from the projected overhead and G&A rates? |  |
| 30 | Are adequate time records being kept to allow proper allocation of personnel costs? |  |
|  | Review of Regulatory Reporting |  |
| 31 | Were there any material violations of regulations or statutes? |  |
| 32 | Were there any repeat violations that needed to have immediate attention? |  |
| 33 | Does management agree with the results of any regulatory or oversight agency reviews? |  |
| 34 | Did the examination process identify any issues that may impact the entity’s ability to participate in any major programs in the future? |  |
|  | External Auditors’ Relationship with the Organization |  |
| 35 | How do we determine whether the firm has any impairment to independence with respect to the organization? |  |
| 36 | How much did we pay you in consulting (or other non-audit) fees last year, and why do you think this does not impair your independence? |  |
| 37 | Is there anything that impairs your independence such as the independent auditor serving on the board of one of our funders or independent auditor having financial or personal ties to one of our funders? |  |
|  | Audit Procedures |  |
| 38 | How do the external auditors assure that: |  |
| 39 | Substantially all contributions intended for the organization are in fact received and properly recorded? |  |
| 40 | All assets/liabilities/revenue/expenses are included on the books? |  |
| 41 | The allocation of joint costs of multipurpose activities is appropriate in the circumstances? |  |
| 42 | We are in compliance with all donor restrictions? Government funding requirements? Federal and state laws? |  |
|  | Executive Session with the Independent Audior |  |
| 43 | Will the Auditor’s opinion be unqualified? If not, why not? |  |
| 44 | Will there be a Management Letter? |  |
| 45 | Were personnel cooperative (e.g., did they answer your questions; did you have to push for answers)? Were any difficulties encountered during your audit? |  |
| 46 | Were there time pressures on your work, including pressures on the timing of the audit procedures? If so, what was the effect on your audit? |  |
| 47 | Is financial management — at the organization-wide level — qualified for what we are asking them to do? Do we need to hire any specialists? |  |
| 48 | Do you have any concerns about financial management? |  |
| 49 | Did management adequately respond to your suggestions for improvement in operations and controls? |  |
| 50 | Does financial management have adequate resources (e.g., experienced personnel and technology resources)? |  |
| 51 | For any proposed adjustments that were not recorded this year by management, does management have a reasonable plan to record those adjustments in subsequent periods? |  |
| 52 | What is your assessment of the risks of material financial statement fraud and your understanding of the controls designed to mitigate such risks? |  |
| 53 | Were any changes made in your scope or in planned procedures because of changes in your risk assessments? If so, why did they occur? |  |
|  | Selection of the Independent Auditor |  |
| 54 | Is the firm independent relative to the organization? |  |
| 55 | What are the firm’s independence policies? How is adherence to that policy determined? |  |
| 56 | What are the firm’s quality-control practices? |  |
| 57 | What is the firm’s level of specialization in the not-for profit industry? |  |
| 58 | How are members of the audit team selected? Who are the members and what is their experience level? |  |
| 59 | How does the firm monitor the professional proficiency of audit team members? |  |
| 60 | How much partner attention is focused on client service? |  |
| 61 | What other services could the firm provide without affecting its independence? |  |
| 62 | What level of communication will the firm have with management, the governing Board and the audit committee? |  |
| 63 | What is the audit process and what areas receive primary emphasis? |  |
| 64 | How does the audit team determine the critical audit areas? |  |
| 65 | What steps does the audit team follow if there are problems identified in the audit process? |  |
| 66 | Does the firm have a peer review? What was the result of the latest review? |  |
| 67 | Have any sanctions been placed on the firm by any regulatory or oversight agencies? |  |

# Signs Which May Indicate Financial Trouble

Indicate that a review of the following indicators of financial trouble have been checked during this review.

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|  |  | ✓ | Comments |
|  | Financial Independence |  |  |
| 1 | Increasing use of “next year’s” cash to pay this year’s expenses (e.g., prepaid expenses) |  |  |
| 2 | A growing debt burden. |  |  |
| 3 | Rapid increases in fixed or semi-fixed cash costs (salaries and fringes, rent, etc.). |  |  |
| 4 | Continuing decline or deficit in operating income or unrestricted net assets. |  |  |
| 5 | Continuing decline or, especially, overdraft in cash and equivalents. |  |  |
|  | Productivity |  |  |
| 6 | Loaded hourly labor rates rising disproportionately to inflation. |  |  |
| 7 | Contract fee rates rising rapidly |  |  |
|  | Deferred Current Costs |  |  |
| 8 | Proceeds of long-term debt or sales of long-term investments being used for current purposes. |  |  |
| 9 | Default on debts (bonds, notes, interest). |  |  |
| 10 | Inability to pay salaries or other current expenses – especially payroll or other taxes – when due or borrowing to cover such amounts shortly before payment. |  |  |
| 11 | Borrowing of cash or other assets from restricted funds or other diversion of restricted resources for inappropriate purposes. |  |  |
|  | Management Practices |  |  |
| 12 | A pattern of budget cost overruns, either overall or in specific programs/departments. |  |  |
| 13 | Increasing incidence of revenue shortfalls. |  |  |
| 14 | Levels of receivables, inventory or prepaid expenses increasing faster than related activity. |  |  |
| 15 | Increasing incidence of funding source challenge or disallowance of expenses. |  |  |
| 16 | Financial and operating data being provided to Board members and management is delayed, unclear or incomplete. Explanations of key items and variances are unavailable or of doubtful validity. |  |  |

# Overall Comments:

1. Adapted from the work of Richard Larkin, CPA [↑](#footnote-ref-1)