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Non-Profit Notes Newsletter

Audit Responsibilities: A Refresher for Board Members

By Mark Piszko, CPA, CGMA, Partner

As we begin the new year, it might be a good time to review requirements and best practices for board members as they relate to their organization's annual audit. Although many not-for-profit organizations diligently follow prescribed best governance practices, including the formation and use of audit committees, an annual review of those policies is usually beneficial and may result in changes or improvements to existing practices.

Let's take a look at some of these rules and best practices.

New York Nonprofit Revitalization Act

New York State, in 2013, promulgated the New York Nonprofit Revitalization Act (NPRA) (the Act). Although the Act applies only to not-for-profit organizations organized in New York State or to organizations incorporated in another state but registered to solicit charitable contributions or hold charitable assets in New York, boards of organizations in states not covered by the Act can still benefit from audit oversight policies prescribed by the Act. For example, the NPRA requires that the oversight of an organization's financial reporting processes and annual audit of its financial statements is performed by an audit committee consisting of ***independent*** board members, or the board itself, with only ***independent*** members participating.

Fundamental Standard: Independence

According to the NPRA, an independent director is an individual who:

- is not, and has not been, an employee of an organization or any of its affiliates during the prior three years, and
- does not have a relative who has held a management position in or received over $10,000 from these entities during that same period.

Further, the individual and his/her relatives may not have similar relationships with entities with which the organization has a financial relationship. Payments received by board members as reimbursement for expenses incurred as a director or reasonable compensation (not over $10,000) received for service as a director do not negate the independence status of those individuals.

Duties of Board Members or Audit Committees

The NPRA requires independent members of an organization's board or its audit committee to:

- engage or renew the retention of a CPA firm to perform the annual audit of the organization's year-end financial statements,

- review the audit results with the CPA firm at the conclusion of the audit, and
- receive the CPA's required communications and management letter as a result of the audit. The required communications and management letter can be discussed with the CPA firm either in-person or by telephone.

In addition, if an organization has, or expects to have, over $1 million dollars in revenue (or if it had over $1 million of revenue in the prior year), the independent members of the board or audit committee must also:

- Review with the CPA firm the scope and planning of the audit before the start of the audit;
- Review and discuss with the CPA at the completion of the audit:
    - material risks and weaknesses in internal control identified by the CPA;
    - restrictions on the scope of the CPA's activities or access to requested information, if any;
    - significant disagreements between the CPA and management, if any;
    - adequacy of accounting and financial reporting processes of the organization; and
- Review on an annual basis the performance and independence of the CPA firm.

If an organization has an audit committee that performs the above tasks, the committee must report the results of their discussions with the CPA firm to the entire board.

Other Oversight Responsibilities

In addition to their role in communicating with the CPA firm regarding the annual audit, the audit committee or the independent members of the board should also include the following among their responsibilities:

- Ensure all federal and state compliance filings and payroll taxes, sales taxes, unrelated business income taxes, and foreign filings, if applicable, are submitted timely and that any taxes due are paid
- Review and understand the organization's internal controls on an annual or periodic basis
- Assure the performance of appropriate risk assessments and risk response plans
- Identify and monitor related party transactions and review the conflicts of interest, ethics, whistleblower and related party disclosure policies on a regular basis and update as necessary
- Monitor any legal matters that could impact the reputation and/or the financial health and reporting of the organization
- Institute and oversee any special investigatory work as needed, and assure responses to investigations
- Review the organization's insurance coverage and determine its adequacy.

The audit committee and/or board should also maintain minutes of its meetings to demonstrate that the oversight process is in place and appropriate.

Public Trust

The not-for-profit community is especially proactive in its readiness to ensure accountability, transparency and essential governance so that there is a public trust in their organizations. With such trust comes the willingness of the public to donate funds and services. Reviewing your board's and/or audit committee's oversight responsibilities is a good way to begin the new year.

Contact Us

If you have any questions about best practices for your audit committees or boards — or not-for-profit accounting and auditing matters in general — please contact Mark Piszko, CPA, CGMA, Partner-in-Charge, Not-for Profit Services, at mpiszko@pkfod.com or 646.449.6316 or the partner in charge of your account.

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