

Nonprofit Notes

Selecting the Right NFP Audit Firm: Where the Real Value Lies

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One of the necessary exercises not-for-profit organizations (NFPs) must undergo is their annual financial statement audit. Although having nothing to do with an NFP's mission, an audit is a compliance requirement that, for many organizations, causes additional work and, at times, consternation. Engaging the right firm to perform the audit is an important decision that requires a thoughtful approach.

Going through a search process to engage an audit firm can be time-consuming and stressful. Did we hire the right firm? Do they have enough experience auditing NFP organizations? They were the most cost-effective, but are we really getting a good deal?

Why Audit Quality Matters

For some, audits are regarded as a commodity that results in the issuance of an auditor's opinion on the fair presentation of the organization's financial statements in a standardized format. Although an audit opinion is standardized, the comprehensive quality of the audit work, the depth of the audit firm's nonprofit expertise, the industry-specific insights they provide to the organization's governing board and their ability to identify operational risk are not standardized.

If audits are indeed commodities, every firm would identify the same risks, communicate them the same way, provide the same insights and recommendations and furnish the same financial statement user confidence. Of course, in reality, that is not always the case, where differences in quality, expertise and additional governance oversight can be significant, especially for NFPs operating under heightened scrutiny.

Audit Firm Selection

Fortunately, in most cases, searches for new audit firms are generally not an annual occurrence. They can be initiated for any number of reasons, including dissatisfaction with the organization's current firm, a "good governance" practice to ensure the organization is receiving adequate service at a fair price and an existing board policy that requires a search process at established intervals.

Regardless of the reason, selecting a new audit firm is not always easy and should include consideration of several factors. The best value an NFP can derive from its audit firm occurs when their mutual relationship is based on a strategic partnership – one where the best interests of the organization take precedence. The best audit firms are less like vendors and more like trusted advisors. With this type of relationship, the audit is no longer merely a compliance exercise.

An excellent audit delivers assurance, insight, governance value and recommendations for operational improvement while strengthening public trust in the organization's management of its financial resources.

Qualities to Seek When Looking for an Audit Firm

Operational qualities and reputation of the prospective audit firm go well beyond fees. NFPs should consider the following when searching for a new firm:

- Are the responsible partners actively engaged on the assignment?
- Is firm leadership involved in risk discussions?
- Are technical specialists accessible?
- Is the firm reputable in the NFP environment and recognized as an experienced specialist?
- Is the firm responsive to questions and concerns?
- Does the firm encourage year-round communication with its clients?
- Does the firm communicate clearly with the board, audit committee and the finance team?
- Does the firm provide insight into financial outcomes, ratios and other metrics, cybersecurity risks, internal control weaknesses and best practices?
- Does the firm use technology to facilitate the audit process?
- Are timelines met regularly?
- Does the firm provide training and thought leadership on topics relevant to the nonprofit industry?
- Is the firm regularly peer reviewed and receives no letters of comments?
- Does the firm offer webinars and in-person sessions concerning NFP topics?

Choosing the “Right” Audit Firm

Ultimately, the board makes the decision to engage an audit firm based on their predetermined criteria. But is the real value of choosing the right firm also carefully considered? An organization may receive an audit report on the fair presentation of its financial statements that looks like others, but the real value of an audit is not the report itself.

The value is in the level of the firm’s NFP expertise, the integrity and thoroughness of the audit process, including a robust risk assessment, the insights provided and the effective communication to the board and audit committee that reinforces their fiduciary responsibilities.

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