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Why a nonprofit might conduct an audit even when the law doesn't require it

Even if the state or federal legal requirements for audits do not apply to a particular charitable nonprofit, there are a number of reasons why a charitable nonprofit may decide to conduct an independent audit. One primary reason is to demonstrate the charitable organization's commitment to **financial transparency**. Publishing an independent audit report on a nonprofit's website or providing the report to those who request it are examples of transparent practices that donors and the public have come to expect from charitable nonprofits. Potential donors may want assurance that the charitable nonprofit's financial practices meet accepted standards. (As an example: one of those standards is whether or not the charitable nonprofit follows appropriate procedures to handle contributions [consistent with a donor's intent](#).)

Another reason to conduct an audit even when not required by law is that many public and private foundations/funders (including governments) require charitable nonprofits to submit audited financial statements or conduct an audit in order to be eligible for funding. Some "charity watchdog" sites take into consideration whether a charitable organization has an annual independent audit

when rating charitable nonprofits (regardless of whether an independent audit is legally required for that organization). And quite simply, conducting an independent audit is good practice (although cost benefit analysis should be made). To exercise their due diligence, your own board of directors may want the assurance offered by an independent audit that the financial statements are free of material misstatements.

The National Council of Nonprofits encourages every charitable nonprofit to make a decision with guidance from professionals, such as an accountant who is familiar with your nonprofit's finances and funding sources, and your state's legal requirements for independent audits.

A nonprofit can build its reputation for integrity, transparency, and professionalism, by having a regular independent audit conducted and making it available to stakeholders and the public. To demonstrate a commitment to transparency and accountability, the National Council of Nonprofits posts its [annual audited financial statements](#) on its website, in addition to posting all the other documents that charitable nonprofits are required to be made available to the public upon request. (Read about the “[public disclosure](#)” requirement for charitable nonprofits).

The case for NOT conducting an independent audit

There are many ways to demonstrate financial accountability. An audit is just one. What donors really want is easily accessible information about a nonprofit's financial health and integrity. We recommend posting your nonprofit's IRS 990 form on its website as a start. [See examples of additional practices](#) the Council of Nonprofits recommends that promote a culture of accountability and transparency.

Nonprofits challenged by limited resources need to examine each budget item carefully. Audits can represent a significant expense. Even for a small organization (under \$1 million in annual revenues) it would not be unusual for an audit to cost thousands of dollars just in professional fees (not counting staff time preparing for the audit and working with the auditors). For organizations with annual revenue exceeding \$1 million, the cost is generally \$10,000-\$20,000. Because audits can be so costly, nonprofits that are not required to have an audit but still want to demonstrate financial transparency may wish to explore more affordable

alternatives such as a [review or a compilation](#).

- [Absent the Audit: How Small Nonprofits Can Demonstrate Accountability Without One](#) shares ideas for options that may work best for your organization to demonstrate accountability. (Authors: Jeanne Bell and Steve Zimmerman).

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Disclaimer: *The resources in this Guide are offered for informational purposes only. The National Council of Nonprofits recommends consulting a lawyer or accountant who has expertise in accounting rules for charitable nonprofits so that you can be confident that your charitable nonprofit is in compliance with all legal requirements. And, when your organization is looking for trusted information about financial management practices, good governance, and accountability, don't overlook the resources that membership in your [state association of nonprofits](#) can provide.*