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## **Step 1: Selecting an Audit Firm**

If there is an audit committee, one of its primary responsibilities is to select an auditor who has the expertise and knowledge to perform an audit for a tax-exempt charitable nonprofit. (If there is no audit committee then the responsibility to recommend the retention of an auditor may fall to the executive director and the full board.)

Before meeting with CPAs and/or audit firms, the audit committee should develop goals and objectives to help narrow the search to only those CPAs and/or audit firms that have the skills and experience to provide the services your organization needs. It is essential to make sure the CPA or audit firm is licensed in your state!

### **When it's time to find a CPA or audit firm for your charitable nonprofit**

- Contact your [state association of nonprofits](#), or your state society of CPAs.
- Check with other professional service providers and organizations similar to your own for recommendations on CPAs and/or audit firms.
- Not all auditors have nonprofit experience, so you should check references and ask for a copy of their Peer Review (most states require auditors to be audited themselves by a third party, which is called a "peer review").

- Before you decide on an auditor, do enough due diligence to know whether there are any conflicts of interest. Don't forget to check with your board members as part of that investigation.
- Sometimes free consultations can be an opportunity to interview potential CPAs or audit firms.
- Don't hesitate to ask for references and/or resumes of individual CPAs within larger firms.
- If you are obtaining a federal single audit be aware of the requirements of [2 CFR Part 200.509](#) – Auditor Selection

## Practice Pointers

- Look for a CPA or auditing firm that understands accounting for charitable nonprofits and has expressed interest in your mission. Be sure to ask how the CPA or firm will educate your staff on how to *prepare* for the audit since that will be the most time-consuming process for your staff, and can most directly impact the time it takes for the auditors to investigate and complete their report. This is where the nonprofit can help control some of the costs of the audit!
- Research organizations that represent the accounting profession in your state, such as your [State Board of Accountancy](#), to help you determine how to evaluate the CPA/audit firm, based on standards that CPAs are expected to follow in your state. (Memberships in some professional associations require CPAs to adhere to certain ethical standards of service. For example, the American Institute of Certified Accountants requires its CPA members to follow its [Code of Professional Conduct](#).)
- Use a “request for proposals” process. Request a proposal letter from qualified CPA firms. When requesting a proposal for audit services, the objectives and scope of the audit should be clear. Ask them to meet with you, provide a quote, as well as their credentials and references. Be sure to ask for references from tax-exempt charitable organization clients.
- Auditors are required by their own professional standards to document their agreements with clients in writing. A signed written agreement is a legal contract, enforceable by either the audit firm/CPA or the nonprofit. For that reason, consider enlisting professional guidance from a lawyer to review the agreement.

- When evaluating a proposal for audit services, the audit committee should consider the following:
  - The responsiveness to the request for proposal
  - Relevant experience
  - Availability of staff with professional qualifications and technical abilities
  - The results of external quality control reviews
  - References from other nonprofit clients, and
  - Of course, costs. [What factors can influence the cost of an independent audit?](#)
- Ask for references from other tax-exempt, charitable nonprofit clients, and call those references. However, don't be satisfied with the first three the audit firm gives you. Ask for a client list, and then choose whom to call so that you are not only speaking with clients who are hand-picked by the audit firm.
- In 2022-2023, a number of factors combined to exacerbate the existing shortage of CPAs, affecting both internal staffing and availability and cost of external CPA and audit firms for nonprofits. [Our January, 2023 article suggests some approaches](#) to addressing the accountant staffing and cost issues.

## Resources for choosing an auditor

- [Hiring a quality auditor](#) (AICPA)
- [Nonprofit Auditor-Selection Guide](#) (BDO/Wallace Foundation)
- [Sample Request for Proposal](#) (RFP) for audit services (Propel Nonprofits)
- [Nonprofits, Choose your auditors well](#) (Curtis Klotz, CLA)

## Conflicts of interests and auditor independence

Inevitably, staff members are involved in the audit field work and in preparing the documents that are reviewed by the auditors. There is always the potential for a conflict in that staff are implementing the internal controls and because they are often the people with the most opportunity to mask financial irregularities.

The AICPA and the individual state governments require auditors to be independent. The Sarbanes-Oxley Act requires *publicly traded companies* to rotate lead auditors --

not necessarily audit firms -- every five years. While this provision of the [Sarbanes-Oxley Act of 2002](#) does not apply directly to nonprofits, it is still a wise practice for a nonprofit to consider how to rotate its lead auditor. The periodic rotation of the individual who is the lead auditor can ensure that the eyes of those examining the nonprofit's financial records are fresh, and less likely to overlook something just because of a long-standing relationship with the nonprofit as a client. Auditor independence may also be compromised if the audit firm provides consulting services to a client nonprofit. ([AICPA's Code of Professional Conduct](#)). As a result, it is considered "best practice" to refrain from engaging the same individual or firm for both auditing and non-auditing services (other than filing IRS annual reports, such as the IRS Form 990). This will help avoid [conflicts of interest](#).

Remember that CPAs and auditing firms work with their clients to improve financial practices and ensure accountability. In this sense, they are responsible to the public as well as to their clients. Therefore, CPAs and auditing firms, as licensed professionals with their own professional codes of conduct and regulations, are charged with remaining independent and objective, regardless of the level of financial review they provide to the nonprofit client.

## **Should you try to find a *pro bono* auditor?**

You may be able to find a firm to conduct an independent audit on a *pro bono* basis, but this is rare. Auditors need to maintain their independence, and some may consider a *pro bono* arrangement as impairing their independence.

**Next: Step 2: [Preparing for the audit](#)**

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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.*