Nonprofit Audit Guide

The National Council of Nonprofits has created this Nonprofit Audit Guide© to provide charitable nonprofits with the tools they need to make informed decisions about independent audits.

Because state laws vary in the scope of their regulation of charitable nonprofits, this Guide includes a 50-state chart that shows whether there is an audit requirement in each state, and if so, under what conditions. This Nonprofit Audit Guide will help you understand what independent audits are, and help you prepare your nonprofit for an audit. The Guide will also tell you about the role of the board in the audit process, and shares tips and tools to help your charitable organization manage the audit process -- from hiring an auditor and preparing for the audit, to evaluating the audit firm's work.

Additionally, the Guide includes information about special audit requirements that apply to nonprofits that receive funding from the federal government.

The Nonprofit Audit Guide will NOT, however, help you identify an independent auditor. For that task we recommend you connect with the CPA society in your state which may maintain a list of CPAs experienced in audits of tax-exempt organizations. Your state association of nonprofits may also be a source of referrals.

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What is an independent audit? This section will help you understand what an independent audit is, and what it is not, as well as what alternatives to independent audits exist.

Does your nonprofit need to have an independent audit? Not every charitable nonprofit is required to conduct an independent audit. Some nonprofits, because of the size of their annual budgets, or because of the sources of their funding, are required by state or federal law to conduct an independent audit. In other situations, a charitable nonprofit has a choice whether or not to conduct an independent audit.

State law nonprofit audit requirements: Learn about the audit requirements for charitable nonprofits in your state. This 50-state chart shows which state laws require a charitable nonprofit to conduct an independent audit.

Federal law audit requirements: If your nonprofit receives federal funding, whether directly or through a pass-through entity, it may be required to conduct an independent audit, even if otherwise state law would not require one.

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

Board’s role and audit committees

A three-step approach to managing an independent audit. This section of the Guide will help you understand what happens before, during, and after the audit, and the roles that staff and board members play in the independent audit process.

- **Step 1:** Selecting an audit firm
- **Step 2:** Preparing for the audit
- **Step 3:** After the audit

Myth: Audits uncover fraud

Glossary

Acknowledgements

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.