

Sample Audit Committee Questions to Ask of Auditors and Management





Audit Planning Meeting

To assist the audit committee in performing its duties, the following is a list of questions it may ask the auditors and management in the context of periodic discussions (i.e., audit planning meeting and post-audit meetings). However, committees are cautioned against falling into a checklist mentality where the basic goal is completion of the checklist itself, rather than conducting their own organization-specific investigation. Accordingly, these questions should be tailored to the circumstances of each organization. You may find many of the following questions are appropriate to ask more broadly of both the auditors and management.

✓ ASK THE EXTERNAL AUDITORS

- ▶ Did you discuss any major accounting or auditing issues with management prior to your retention, your responses to which were, or might be considered to be, a condition of your retention?
- ▶ (If there is a new auditor this year) What steps will be taken to ensure an orderly transition from the prior auditor?
- ▶ What is the planned scope of your audit, (i.e., will all of the subsidiaries be examined, what percentage of inventories will be observed, what percentage of accounts receivable will be confirmed, how will you verify accounts payable?) Will auditing procedures be rotated (i.e., financial statement areas, locations, etc.)?
- ▶ Are there any subsidiaries or activities that will not be audited that present operational or financial risks but are not viewed as “material?”
- ▶ How can your planned audit scope be relied upon to detect material errors, fraud, illegal acts or material weaknesses in internal control?
- ▶ How will the involvement of the internal auditors be coordinated with your audit?
- ▶ Does the organization use the services of other external auditors? What is the percentage of assets, revenues and net income for which they will be responsible? How will you determine the quality of their work? Will your report make reference to the other external auditors?
- ▶ Are there any concerns with how management controls key business processes? Have the key processes been appropriately identified?
- ▶ Are there any areas where the organization could be of greater assistance to reduce the amount of time spent by you?
- ▶ Will your risk assessment of the internal control policies and procedures enable you to reduce audit testing performed in conjunction with the integrated audit?
- ▶ What risk assessment techniques will you use?
- ▶ What criteria do you use to determine materiality?
- ▶ How will you utilize computer auditing techniques to review our computer processes?
- ▶ Will you use statistical sampling?
- ▶ How does the planned scope of your audit differ from the prior year?
- ▶ How do you intend to staff the engagement? Will there be personnel continuity from the prior year? What is the expected level of participation by the engagement partner?
- ▶ How do you plan to detect the existence of related party transactions?
- ▶ Are there any proposed accounting, auditing, tax or reporting rules that could materially affect the organization's financial statements?

- ▶ How do you ensure independence? Are there any matters that might reasonably be thought to bear on your independence?
- ▶ Are there any unresolved questions from the prior year's audit?
- ▶ Do you anticipate any special problems in this year's audit?

✓ ASK THE INTERNAL AUDITORS

- ▶ Has management been responsive to your and the external auditors' previous findings and recommendations? What previous year internal control recommendations from either the external auditors or as a result of your procedures have not been adopted?
- ▶ Were there any areas of concern that were not reviewed due to budget or other limitations?
- ▶ Have your audits identified areas of concern to the overall entity environment? Have any specific locations or areas been identified?
- ▶ Does management give appropriate consideration to your views?
- ▶ What is your relationship with the external auditors?
- ▶ How would you assess the information systems control environment, including key business information systems? How is security over these systems maintained?
- ▶ What work will you be doing to assist the external auditors? Could this work be expanded for greater audit efficiency?
- ▶ How do you monitor the organization's policies and procedures to prevent improprieties?
- ▶ What were the scope and results of internal audits this past year?
- ▶ How are risks identified?
- ▶ What procedures are in place to prevent/address the risk of management override of controls?
- ▶ How is the internal audit staff remaining current with respect to changes in accounting and financial reporting requirements? Are there appropriate training mechanisms in place?
- ▶ (For multi-locations) Do you and the external auditors plan to visit all of the organization's locations this year? If not, what are your criteria for site visits?

✓ ASK ACCOUNTING MANAGEMENT

- ▶ Were there any major changes in operations this year?
- ▶ Are there any areas that require special attention due to high business or financial risks?
- ▶ What are the organization's policies and procedures to deter conflicts of interest and illegal acts, and how are they monitored?
- ▶ How does the organization minimize the risk of fraudulent financial reporting?
- ▶ What are the organization's revenue recognition policies?
- ▶ Are there any major write-downs or other significant transactions that will affect the financial statements?
- ▶ Were there any significant changes in accounting estimates or models used in making accounting estimates? If yes, what changes were made and what are the financial statement effects?
- ▶ Is the organization contemplating any changes in accounting methods?
- ▶ Should the audit committee be aware of any problems, tax or legal difficulties?
- ▶ Does management have the appropriate resources to assess the effectiveness of internal control over financial reporting?
- ▶ Are there policies and procedures in place for disclosing internal accounting control deficiencies and frauds or illegal acts identified to the auditors and the audit committee?
- ▶ How is management remaining current with respect to changes in accounting and financial reporting requirements? Are there appropriate training mechanisms in place?
- ▶ How do you define materiality? How is this different from the auditors' determination of materiality?
- ▶ Were there any significant systems implemented or modified that could impact processing of transactions?

Post-Audit Meeting



✓ ASK THE EXTERNAL AUDITORS – GENERAL QUESTIONS

- ▶ Did the scope of the audit differ from the audit plan?
- ▶ Were you provided with all the information you requested? Do you have any reason to believe that information was withheld from you or that management representations were incorrect?
- ▶ Did the organization or its counsel impose any limitations on you?
- ▶ Did you observe any areas of serious concern over the corporate control environment? Were any integrity or honesty concerns noted?
- ▶ Did you detect any material errors, fraud, illegal acts or significant deficiencies or material weaknesses in the internal control system?
- ▶ Were there any significant changes in financial statement amounts from the prior year? What were the causes of the changes?
- ▶ Did you have enough time to complete all phases of your audit?
- ▶ Will your opinion be unmodified? If not, why?
- ▶ (For multi-location engagements) How did you ensure that work performed by your audit firm or other audit firm(s) in other locations has been pre-approved and does not impair independence?
- ▶ Did management consult with you on tax matters? Is the liability for taxes adequate to cover potential assessments?
- ▶ Were there any disagreements regarding accounting, auditing or reporting matters between you and management? If so, how were they resolved?
- ▶ Did management pressure you on contentious issues by threatening to "shop" for other auditors?
- ▶ Were any adjustments or disclosures proposed by you not recorded by the organization?
- ▶ Are there any unresolved matters?
- ▶ Are the accounting principles used by the organization overly conservative or aggressive? What would be the effect of using alternative principles? Do the accounting principles conform to industry practice?
- ▶ Were there any changes in accounting principles?
- ▶ How did you satisfy yourself as to the reasonableness of any significant accruals or estimates made by management (e.g., doubtful accounts, valuation allowances, environmental contingencies, etc.)?
- ▶ Were there any unusual items that affected the change in net assets? Are they properly accounted for and will they be adequately disclosed?
- ▶ Did you review information furnished to others (e.g., actuaries)?
- ▶ Are you satisfied that there is no substantial doubt about the organization's ability to continue as a "going concern?"
- ▶ When do you expect to issue your report?
- ▶ Are there any significant concerns about information systems and their ability to process, record and report financial transactions?
- ▶ Were there any related party transactions noted as a result of your audit? Are the transactions properly recognized and disclosed in the financial statements?
- ▶ How did you satisfy yourself that pending or threatened lawsuits are not likely to have a material effect on the financial statements? Has management provided adequate disclosures within the financial statements?
- ▶ In your review of other documents prepared by management (e.g., annual report, IRS Form 990, etc.), did you identify any inconsistencies or material misstatements of fact?
- ▶ What is management's attitude toward establishing strong internal controls? Does it set an effective example for the entire organization? Does it follow up on suggested changes? Were weaknesses reported by you last year remediated? Was management receptive to your recommendations?
- ▶ Are there any material weaknesses in the organization's internal controls that have not been remediated, including computer security controls? Are appropriate changes being instituted?
- ▶ Did you encounter any difficulties in obtaining the management representation letter or any specific representations?

- ▶ What is your general assessment of the integrity and competence of the organization's financial, accounting, computer and internal audit staffs? Are they respected groups within the organization? Are they effective? What improvements would you recommend?
- ▶ How do actual engagement fees incurred for the year compare to the estimated fees?
- ▶ What percentage are the audit fees for this engagement in relation to your firm's total fees? Is that material?
- ▶ What can the organization do to reduce the audit time?
- ▶ What are the advantages to the organization in continuing its relationship with your firm?
- ▶ Are there any other items that should be discussed with the audit committee?

✓ ASK THE INTERNAL AUDITORS

- ▶ What was the extent of your work on the audit and were there any changes to the scope of work performed?
- ▶ Was there adequate coordination with the external auditors?
- ▶ Did management impose any limitations on you?
- ▶ Were any significant problems encountered?
- ▶ Are you aware of any actual or possible illegal or questionable payments?
- ▶ Are you aware of any conflicts of interest between officers or employees and the organization?
- ▶ Are you aware of any significant deficiencies or material weaknesses in internal control not identified by management or the external auditors?
- ▶ Are you aware of any related party transactions not disclosed in the financial statements?
- ▶ What are the department's goals and objectives for this year?
- ▶ What will be the scope of your activities this year?
- ▶ How will you monitor the organization's code of conduct?
- ▶ Do you feel your staffing is adequate?
- ▶ What additional work could you do to reduce the work of the external auditors?
- ▶ What is your evaluation of the external auditors' services for the past year?

- ▶ Are the organization's systems functioning with maximum efficiency at minimum cost?
- ▶ What is your assessment of the capabilities of management?
- ▶ Are there any other items that should be discussed with the audit committee?

✓ ASK ACCOUNTING MANAGEMENT

- ▶ What was your reaction to the audit findings?
- ▶ Were there any disagreements between you and the external auditors? If so, how were they resolved?
- ▶ Are the financial statements fairly presented?
- ▶ What are the reasons for financial statement variations from the prior year?
- ▶ What was the substance of significant issues raised by either internal corporate or outside counsel, and how are these matters reflected in the financial statements?
- ▶ Did you consider any changes in accounting principles that were not ultimately adopted?
- ▶ Did you seek the opinions of other auditing firms on any accounting or auditing issues?
- ▶ Were any problems or difficulties identified as a result of the audit that we should know about?
- ▶ What is your opinion of the auditing services performed by the external auditors?
- ▶ Were any significant deficiencies or material weaknesses identified and communicated to us pervasive across the organization or were they limited to a specific location or account? Have these been remediated?
- ▶ Were there any other deficiencies identified by you that were not reported to the audit committee (whether or not they have been remediated)?
- ▶ Were there any errors or adjustments noted by you that were not recorded?
- ▶ What is your reaction to the suggestions contained in the external auditors' management letter?
- ▶ What actions do you contemplate in response to these suggestions?
- ▶ What is your evaluation of the external auditors' services this past year?
- ▶ What significant changes do you foresee for the organization this year?
- ▶ Are there any other items that should be discussed with the audit committee?



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The online guide, *Effective Audit Committee for Nonprofit Organizations*, incorporates specific recommendations, guidelines and rules of governmental and private sector bodies concerned with such matters. The purpose of this online tool and its supplemental materials is to provide an overview of the common functions and responsibilities of an audit committee in order to help nonprofit organizations: (1) form and maintain an effective audit committee, and (2) set an appropriate agenda for its ongoing activities. We hope this document and the accompanying site offer comprehensive guidance to nonprofit organizations as they establish and maintain audit committees that will, ultimately, ensure the financial wellbeing and future success of the organization.

The guide, [Effective Audit Committee for Nonprofit Organizations](#) can be viewed and downloaded in the "Guides" section of [BDO's Nonprofit & Education Industry page](#).

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