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| **nONPROFIT AUDITOR SELECTION GUIDE** |
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Nonprofit Auditor Selection Guide

## This guide is a compilation of tools and templates designed to provide guidance throughout the process of selecting an auditor for your nonprofit organization. These tools and templates should be used as guidelines and can be modified to meet your specific needs. Included in this guide are the following:

* **Planning and Internal Preparation** includes important overall considerations for the auditor selection process. These initial steps can help clarify and prioritize the audit needs of the organization, as well as provide structure for the overall selection process.
* **Auditor Request for Proposals (RFP) Template** can be used to solicit proposals from identified audit firms. The template can be modified if necessary to meet the specific needs of the organization.
* **Auditor Interview Guide** provides sample questions for an in-person interview with representatives of applicant firms. The guide includes questions that expand on those covered by the request for proposal. Organizations can modify these questions to cover any areas of particular interest or areas that may not have been clear from the firms’ responses in the written proposal.
* **Applicant Assessment Guide** provides sample criteria from which to evaluate and rank applicant firms. We recommend that during the final assessment process a member of your selection committee also contact references identified by applicant firms.

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**Planning and Internal Preparation**

Steps toward ensuring an efficient and successful auditor selection process include:

* Define the entity or entities to be audited. Organizations that are comprised of multiple, legally separate entities will need to determine which of these should be included in the scope of the audit. You will need to follow auditing standards as to which legal entities must be included in the consolidated audit. This also could be a point of discussion with the auditor.
* Ensure that the board’s audit committee is involved in the selection process from the beginning. If your organization doesn’t have a separate audit committee, the finance committee should take on this role. Identify one individual from the committee to manage the process and coordinate with members of management.
* Clarify the logistics of the selection process and determine a timeline to complete the process and finalize the decision.
* Conduct initial research (for example, gathering recommendations from peer organizations) and identify up to five auditors to receive a request for proposals (RFP). You will most likely interview a smaller number of firms.
* Identify key attributes of the auditor and determine a method for auditor evaluation.
* Consider your organization’s strategic objectives and plans in selecting a new auditor. For example, an organization whose strategy is to increase its government contract funding significantly will want to ensure that the auditor selected has sufficient experience in this area. Note that if your organization has expenditures from federal contracts of $750,000 or more in your fiscal year, you will need to have a Single Audit under [OMB’s Uniform Guidance](https://www.ecfr.gov/current/title-2/part-200).

**Auditor Request for Proposals TEmplate**

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| Date  Name of Audit Partner  CPA Firm  Address  City, State Zip  Dear \_\_\_\_\_\_\_\_\_\_\_:  Our 501(c)(3) tax exempt organization, [NAME OF ORGANIZATION], is requesting a three-year audit and tax proposal from several CPA firms with experience providing audit and tax services to not-for-profit organizations.   1. **Overview**   [PROVIDE A BRIEF OVERVIEW OF YOUR ORGANIZATION. CONSIDER INCLUDING YOUR ORGANIZATION’S MISSION, BUSINESS MODEL, ANNUAL EXPENSES, AMOUNT OF NET ASSETS, AND SOURCES OF FUNDING.]  **B. Audit Timing and Scope**  Our agency requests a bid from your firm to provide:   * Audited financial statements for the three years beginning with the year ended [MONTH DD, YYYY] * Preparation of management letter (including our management action plan as part of final submission to the Board of Directors). * Preparation of IRS Form 990 and applicable state forms for each year. Required state filings will be in [NAME(S) OF STATE(S)]. * Planning meetings in preparation for audit. * Presentation of final audited financial statements and management letter to our Board of Directors, including executive session if requested. * Availability to answer questions throughout the entire year. * [IF APPLICABLE:] Preparation of reports to comply with OMB’s Uniform Guidance.   We anticipate that we would be prepared for the audit of the fiscal YYYY financial statements to begin fieldwork during the week of \_\_\_\_\_\_\_\_\_ and would expect the delivery of financial statements and the management letter by [EXPECTED DATE OF DELIVERY]. We would also expect the timely preparation and filing of tax returns.  If you are interested in submitting a proposal, contact [AGENCY CONTACT PERSON] at (\_\_\_) \_\_\_-\_\_\_\_ or [EMAIL] and we will make available to you:   * current financial statements, * latest tax returns, * an organizational chart * other documents as requested by you for preparation of a proposal   **C. Proposal Specifications**  Please provide the following information in your proposal. Since we will be comparing the qualifications of a number of firms, please provide the information in the order requested.   1. Provide a description of your firm. (staff size, number of professionals, industries served, etc.) 2. Describe engagements your firm currently conducts in the not-for-profit sector. Include a list of not-for-profit clients that you believe are comparable to our organization in size, mission focus and complexity. If partners or other employees serve in an advisory/consultative capacity within the not-for-profit sector, please list such positions as well. 3. Describe the level of experience of the individuals who would be assigned to our account. 4. Describe your firm’s basic approach to performing an audit and the resulting advantages that will accrue to our agency. Include description of the activities undertaken by your firm to promote/ensure audit quality. 5. [IF APPLICABLE:] Describe your firm’s method of compliance with OMB’s Uniform Guidance. 6. Describe the extent to which our organization’s personnel will be expected to contribute to the work effort. 7. Describe any existing or potential relationships between your firm and our agency and any employee or officer of the agency that could affect your independence and objectivity because of an actual or perceived conflict of interest. 8. Please include your peer review report with your proposal. 9. **Scheduling and Staffing of Engagement** 10. Identify the engagement team which would be performing our audit and include a resume of the qualifications and experience for partners, managers and staff. 11. Indicate the expected timing and completion of the audit and the expected delivery of the financial statements and management letter.   **E. Fees**   1. Provide information regarding your audit and tax fees for each of the three years of this engagement, including the estimated number of hours to be spent by each person and the expected rate per hour of each. Be sure to include out-of-pocket expenses in your fee structure and indicate how these are calculated. 2. Describe whether and how you bill for overruns. State how you manage against overruns and how we can be assured of no “surprise” billings. 3. **Other Proposal Information** 4. Please give any additional information, not specifically requested previously, considered essential to your proposal. 5. It should be noted that either party may cancel the audit for the second or third year by written notice to the other party no later than six months after the start of the fiscal year. 6. **Proposal Deadline**   The deadline for receipt of your proposal submission is [DATE]. Documents should be emailed to [EMAIL]. No proposals received after this date will be considered. All proposal submissions will be responded to once a decision has been made.   1. **Other Proposal Instructions**   Proposers are expected to examine the specifications and all instructions contained in this invitation for bids. The proposals must be signed by a duly authorized representative.  Consideration may be given to such matters as contractor integrity, record of past performance, and financial and technical resources. Upon request, bidders must be willing to provide information concerning these matters.  For any additional questions or clarifications, please contact [AGENCY CONTACT PERSON] at (\_\_\_) \_\_\_-\_\_\_\_ or [EMAIL].  Sincerely,  Name of AGENCY contact person Name of Agency Address City, State Zip |

**auditor interview guide**

Below are sample questions to be used for interviews with submitters of the top ranked proposals (ideally 2-3 firms). Interviews should be conducted by the selection committee.

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| **Firm Characteristics** |  |
| Describe your firm’s hiring and promotion philosophy. | Comments: |
| Describe how your firm will provide continuity of staff. | Comments: |
| **Audit Execution** |  |
| Describe how the audit will be planned and scheduled. | Comments: |
| Describe your approach to working with management. How would you deal with areas in which you and management disagree? | Comments |
| What would your firm do if management, legal counsel, or others made you aware of anything that could be considered a violation of laws, regulations, GAAP, professional practice, or business ethics? | Comments: |
| **Advisory Capacity** |  |
| Describe your work with other nonprofit organizations of a similar size and business model to ours. What are your major observations or lessons about the financial challenges and/or opportunities for this type of organization? | Comments: |
| What are the areas of our organization’s financial statements or notes that you believe could be more explicit or transparent, or provide more clarity to help users better understand our statements? What additional information could we provide? | Comments: |
| From your firm’s experience, what are the best ways for improving the internal control system of an organization such as ours? | Comments |
| Describe any other areas where you feel your firm is unique or your approach can add value to our organization. | Comments: |

**Applicant Assessment Guide**

# Below are some sample areas to consider when evaluating audit firms. These questions should be used to guide evaluators in scoring/ranking applicants. Keep in mind it is ultimately the responsibility of the selection committee to define the decision criteria most relevant to the organization.

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| *Unfavorable Favorable* | | | | | | |
| **Firm Assessment** | | | | | | |
| 1. Are there potential independence or conflict of interest issues with the firm? | □ | Yes |  |  | □ | No |
| 1. Does the firm have sufficient experience in serving organizations similar in size, mission, and business model? | □ | No | □ | Some experience | □ | Significant experience |
| Comments: | | | | | | |
| **Audit Team Assessment** | | | | | | |
| 1. Do the key personnel have education and experience in the type of work that the audit entails? | □ | No | □ | Some experience | □ | Significant experience |
| Comments: | | | | | | |
| **Service Offering Assessment** | | | | | | |
| 1. Does the firm’s pricing fall within our budget? | □ | No | □ | Borderline | □ | Yes |
| 1. Is the timeline for completion consistent with organizational needs? | □ | No |  |  | □ | Yes |
| 1. Is the firm’s process for delivering audit services appropriate to the specific needs of the organization? | □ | No | □ | Somewhat | □ | Yes |
| 1. Does the firm demonstrate innovation, creativity and initiative in its recommendations? | □ | No | □ | Somewhat | □ | Yes |
| Comments: | | | | | | |
| **References** | | | | | | |
| Comments from 2-3 current clients of applicant firm: | | | | | | |