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Tips of the Month for 2010

This year each month's tip is focused on individual components of a nonprofit. Our intent is to provide inspiration and suggested steps to help trustees, staff leaders and volunteers become more organizationally savvy. We hope these tips will be helpful to your members.

FEBRUARY Nonprofit Finance and Audit Committees: What's the Difference?

Understanding the distinct roles of finance and audit committees is part of the learning process for many nonprofit organizations. While many organizations are understandably looking for ways to economize ("with one committee handling finance and audit oversight, won't we save staff time?!), the benefits of having separate finance and audit committees are too significant to ignore. Taking a closer look at the duties of each committee quickly reveals the reasons why the separation is in order, even for small nonprofits. The finance committee oversees the preparation of the nonprofit's budget and periodic financial statements. The audit committee reviews the process and ensures that reports are received, monitored, and disseminated appropriately. The finance committee monitors financial transactions on an ongoing basis. The audit committee examines the nonprofit's financial management policies and practices to ensure that things are done according to policy and with adequate controls. The finance committee provides guidance about what can be done to increase the effectiveness and efficiency of financial management activities. The audit committee provides oversight of the nonprofit's policies and practices and seeks and interprets the findings of independent auditors. Many nonprofit leaders continue to believe that a single committee can effectively oversee day to day financial matters while ensuring adherence to financial policies and overseeing the annual independent audit. Yet the same leaders often complain that the workload of the finance committee makes it unappealing to many members of the board. There are two additional benefits to consider when you separate a Finance/Audit Committee into two separate board committees: (1) reducing the burden on the Finance Committee and potentially make it a more appealing volunteer service opportunity; and (2) establishing two volunteer committees with fiscal oversight responsibilities thereby doubling the number of board members actively engaged in oversight of the organization's finances.