

# About Audit Committees

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## Audit Committees

### Overview

- This handout provides some information on the purpose and tasks of a Board of Directors' audit committee. Depending on the organization, the functions may be assigned to different committees of the Board, i.e.
  - in some organizations, audit committees are independently constituted.
  - in some organizations, the audit committee also takes on other responsibilities (see the Section *Other Audit Committee Functions*, below)
  - in other organizations, the audit oversight function of the Board is merged with a Board's finance or executive committee.
  - finally—and problematically—some Boards of Directors neglect their audit oversight functions, leaving these to staff.

### Key Principle: Independence

- Audit committees, to properly fulfil their function and manage risks of conflict of interest, must maintain an element of independence from both the external auditors and from the senior staff who manage the organization and its finances, i.e. the Executive Director and finance or other staff.
- This means that:
  - the Board should not be communicating to the auditors through staff
  - certain tasks and portions of an audit committee's meeting must be done in camera, without staff present; and
  - in exerting this independence in an in-camera meeting or in email communication / phone/ video conversations with the auditors, the committee or its chair must be able to freely express:
    - any concerns they may have with the way staff are managing finances; and/or
    - any disagreements the Board may be having with staff, regarding finances or financial management.

## Key Purpose: Audit Oversight

- Audit committees play a key role in overseeing the organization’s audit. This means:
  - Deciding on the scope of the audit, including what particular focus they may want an auditor to have, or what aspects of the financial management system they may want an auditor to delve into more deeply and return to the Board with an opinion or recommendations
  - Negotiating the contract with the auditor, based on the scope
  - Planning out the steps to the audit, with the auditor
  - Reviewing the audit findings
  - Discussing the audit report and preparing to bring recommendations to the Board and to the membership regarding necessary changes or improvements

## Key Audit Oversight Meetings

- Audit committees usually meet at least 3 times per year to accomplish their audit oversight functions, with some of those meetings taking place in several stages allowing for different people to be present or absent.

### 1. The Pre-Audit Meeting—with and without the Auditors:

- *Purpose:* To meet with the auditor to plan for the audit, and define its scope.
- This meeting should be organized in three parts:
  - i. An in-camera portion on its own, without management or the auditors to:
    - discuss the approach, and prepare for the conversation with the auditor
  - ii. An in-camera portion with the auditors, without management present to:
    - Define the scope;
    - Raise any concerns with the auditor regarding business risk, internal controls and other issues;
    - Talk about the audit workplan and timelines, and ensure the audit workplan addresses the areas of concern raised;
    - Review and approve the audit fee ensuring it covers the additional work requested (if the auditor must return later with a quote, an additional meeting may be needed to approve the fee).
  - iii. A portion with management

- To inform them of the approach and the areas of focus, and support them to prepare for the audit based on the workplan.

## 2. The Post-Audit Meeting with the Auditors

- *Purpose:* To meet with the auditor to review results
- This meeting should be organized in two parts:
  - i. An in-camera portion with the auditors only
    - To discuss the results of the audit and ask questions
    - To receive any advice on future work to improve processes, compliance, systems
    - To openly discuss what assistance may be required of staff, without staff being present
  - ii. A portion with both the auditors and management present
    - To discuss the findings of the audit and allow management to ask questions

## 3. Meeting of the Audit Committee, to Discuss Findings & Implications

- At this meeting, the committee meets to: discuss the implications of the audit; to discuss the effectiveness of risk management and assess the effectiveness of internal controls; and prepare for any recommendations to the Board
- Depending on the audit results, it may wish to split this meeting into
  - a first part that is in-camera without management, and
  - a second part with management.

### Reporting Responsibilities

- At every stage, the audit committee must keep the Board apprised of its progress, its decisions, and its findings.
- The audit committee chair must communicate to the Board Chair the need to appear on the Board agenda, where necessary.

### Ideal Composition

- This is a committee where financial literacy is key.
- Non-Board volunteers with appropriate financial experience including accountants and auditors may be appropriately recruited to this committee, with confidentiality

agreements signed. However, there must be Board representation: the Treasurer and perhaps one other person who can speak to financial oversight activities of the Board or interaction with the organization's staff.

- At least three people.

### **Other Audit Committee Functions, Depending on the Committee Model**

- If the audit committee is separate from finance or risk committees, it often takes on additional responsibilities.
- In many cases, it takes on some of the jobs that other finance committees take on, in organizations where the audit and finance committee are merged. These are:
  - finance policy development;
  - compliance & financial risk oversight; and
  - oversight of the *process* of producing financial reports (but not their review).
- In the above situation, the separate finance committee is left only with the tasks of: 1) preparing the budget; 2) reviewing the financial reports (profit & loss, & cash balance statements); and 3) preparing to present these to the Board.
- If the organization's whistleblower policy names the audit committee, the committee may take on the role of the ombudsperson to receive complaints about financial management.
- The committee may have a broader mandate of general oversight of risk, and not exclusively *financial* risk.

### **For More Information**

- Grant Thornton LLP's [Not-for-profit audit committee guidebook](#)
- National Council of Nonprofits, "[Board's Role & Audit Committees](#)"
- BDO, "[Effective Audit Committee Guide](#)"