



AUDIT COMMITTEE

Audit Committee (Optional – Recommended)

The audit committee's primary responsibility is to ensure audits are conducted. While USBC recommends the association have an audit committee to perform periodic audits, **an annual audit must be conducted by an outside provider**. This section provides direction for the audit committee in conducting audits.

Conducting the Audit

When an outside audit firm is used the audit committee would oversee and work with the outside auditors. This committee should be made up of people who are not directly responsible for handling or approving financial transactions. Ideally, committee members could be volunteers with public accounting backgrounds (CPAs) or those who may run their own businesses or have auditing experience.

Purpose of an Audit

An audit is an examination of an organization's financial documents to determine whether the records and reports are valid, and the information is fairly presented. An audit itself does not imply wrongdoing.

The purpose of an audit is to review management policies and procedures, to analyze the flow of transactions and their related internal controls and to work with management in suggesting and implementing solutions where needed. Internal control provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Ensuring an association audit is completed is the responsibility of the board. Every successful audit is based on sound planning, active involvement, and communication between the association and the auditors. Whether the audit is performed by internal or external sources, it is best to pre-define what the responsibilities will be for staff, committees, and/or the auditors.

It is a USBC requirement that an association, at a minimum, completes an audit on an annual basis. If there would be a need for any interim audits (i.e. merger, new association manager, etc.), they should be scheduled, as necessary.

The Audit Process

Although every audit is unique, the audit process should be very similar for most associations and would normally consist of five steps:

1. Planning/Preliminary review
2. Fieldwork
3. Audit (draft) report
4. Final Report
5. Follow-up review

Planning/Preliminary Review

This part of the audit process encompasses the following procedures:



1. An initial announcement

Whether the audit is being done through external or internal sources, a communication should be forwarded to the association manager informing him/her of the audit and asking to meet to begin the process. This can be done with a short memo such as the following:

Date
Association Manager
Name of Association

Dear Association Manager:

We are pleased to have been named to do the audit for the "*Name of Association*" for the fiscal year ending July 31, 20___. We would like to meet with you no later than "*enter date*" to discuss our understanding of the key information affecting the audit as well as to confirm your expectations.

Please advise us as to your availability to meet.

Sincerely,

Auditors (list names)

2. Planning meeting

At this meeting, those performing the audit should document to the association manager who is assigned to the audit, scope of services, key dates, and required communications. This meeting also should allow the association board to identify issues or areas of special concern that should be focused on. The following is a sample of the documentation to be provided:

Audit Committee

Chair-John Smith, Recording Secretary -John Doe
Members - Joan Lewis, Jane Jones, Bob Clark

AUDIT PLAN

1. To obtain a working knowledge of the association. Only through fully understanding the association's business can we gain insight to the business risks effecting the association and, subsequently, the financial statements
2. Audit scopes, which ensure all auditing procedures are appropriately applied, are established to enable us to express an opinion on the financial statements of your association as of "date." The Audit will be made in accordance with the auditing standards generally accepted in the United States. It will include such tests of accounting records and other audit procedures considered necessary.
3. The focus of our attention will be on items with a higher potential of error or misstatement. An error or misstatement could include an omission or misstatement of accounting information.
4. Our approach will primarily be based upon the following factors
 - a. The use of appropriate auditing standards. Example: Random review of league applications and membership dues.
 - b. Understanding the association's purpose. Example: Ensuring association has not used an inordinate amount of funds on items and activities that do not support the purpose of the association.
 - c. Risks faced by the association both externally and internally. Example: Center closing, leading to loss of membership revenue and/or untrained association manager.
 - d. Evaluation of year-to-date operating results and financial position. Example: Is the association budget on track? Had the association already allocated all budgeted funds only halfway through the season?
 - e. Known business issues, discussions with association manager and Finance Committee, and prior year audits. Example: View prior season's audit report to ensure recommendations have been implemented.



5. Key Dates

- a. June: Pre-audit meeting
 - b. July/August: Begin gathering data needed for audit.
 - c. September: Conduct the audit
 - d. October: Final draft of financial statements and management letter. Provide final audit report to the board.
6. Required communications to association board. To comply with your association’s audit standards, we will provide information about significant matters related to the audit, such as:
- a. Auditors responsibility under generally accepted auditing standard
 - b. Non-compliance with USBC Bylaws and USBC Association Policy Manual
 - c. Non-compliance with local, state, and federal government requirements.
 - d. Uncorrected misstatements or errors.
 - e. Recommended changes/improvements/implementations for future audits.
 - f. Difficulties encountered in performing the audit.

3. Gather information

A pre-audit information gathering should be done with key personnel and a review of reports, files, and other sources of information. A key part in the accumulation of this information is the completion of worksheets detailing specific accounts asked for by the auditors (i.e. accounts payable, accounts receivable). Following is a brief example of such a worksheet:

COMPUTER UPGRADES ACCOUNT #7005			
<u>NAME OF VENDOR</u>	<u>CURRENT YEAR</u>	<u>PRIOR YEAR</u>	<u>DIFFERENCE</u>
Best Buy	\$2,500	\$150	\$2,350
John's Computer	\$750	\$750	\$0
Maintenance (Other)	\$150	\$125	\$25
<i>Totals:</i>	<i>\$3,400</i>	<i>\$1,025</i>	<i>\$2,375</i>
Explanation of Variance: The increase is due to the purchase of a new computer and software.			

Adding explanations for significant changes saves a lot of questions and time when the auditors are doing their fieldwork. Along with this fact-finding, a review of the internal control structure also should be completed. Internal control structure means a system of checks and balances, such as written financial policies and procedures. For example, were there two signatures on every check?

4. Fieldwork

The next step is defining the fieldwork that will be necessary to achieve the audit objectives – such things as what the board has asked the audit committee to focus on (i.e., deposit requirements are met), external contacts that need to be made (i.e. bank/investment account confirmations), association manager review of financial policies and procedures, etc.

The fieldwork concentrates on transaction testing and informal communications with the association manager and/or board. It is during this phase that the auditors determine whether the internal controls that have been



identified during the planning stage are operating properly and, in the manner, described. This phase concludes with a list of any significant findings from which the auditors will prepare a draft of the audit report.

During the fieldwork, the auditor performs the procedures that have been outlined in the audit plan. These procedures will test the major internal control functions (checks and balances system) and the accuracy and propriety of the transactions. Various techniques can be used in transaction testing with "sampling" being one of the most common. With "sampling," a randomly selected number of transactions are tracked from the beginning to the end of the process. A simple example would be as follows:

a. **Cash Receipts**

- 1) Select a transaction from the General Ledger (i.e. depositing of membership dues).
- 2) Validate transaction (amount/account) against Cash Receipts journal.
- 3) Validate transaction against deposit slips and related support (i.e. league application, membership application, etc.).
- 4) Validate transaction against bank statements.

As the fieldwork progresses, the auditor discusses any significant findings with the association manager and board. The association manager offers his/her insights and works with the auditor to determine the best method of resolving any issues. To assure proper handling, documentation should be prepared to substantiate what is done. A large and vital part of the audit fieldwork is the working papers that were compiled by the association manager. Many times, the auditors will use these worksheets as one area they may want to focus on in their transaction testing. The worksheets support and connect the accounting records and financials to the audit opinion. They can be very comprehensive and serve many functions within the audit.

With the completion of their fieldwork, the auditors summarize any audit findings, the conclusions to those findings, and any recommendations necessary to be included in the audit report draft.

b. **Verification of Association Accounts.** As part of the audit process, the audit committee has additional responsibilities in verifying association accounts. The audit committee's verification responsibilities include, but are not limited to, the following:

- 1) Verify deposit amounts and dates.
- 2) Review canceled checks and supporting documents. Make sure checks bear the signatures of two authorized cosigners.
- 3) Review the association manager's financial statements for accuracy.
- 4) Review the checkbook to verify entries and reconcile bank statements.

Funds must be deposited within seven days of receipt in an account in the name of the association in a FDIC banking institution or its equivalent. Failing to follow these requirements could cost associations thousands of dollars because a bonding payment only will be 50 percent of the documented shortage.

c. **Inventory Audit.** In addition to the traditional financial audit outlined in the preceding sections, an annual audit of the association's inventory is necessary to fully understand the association's financial situation. An association's inventory consists of any physical property; for example, local awards that have not yet been issued or unsold association merchandise.

In auditing the inventory, the audit committee shall compare the association property on hand at the beginning of the season with the amount remaining at the end of the season. That figure is to be compared with the information listed in the financial records.



5. Audit (Draft) Report

At the conclusion of the fieldwork, the auditors do a “draft” report. The auditors then thoroughly review all audit work papers and the “draft” report. The report is then given to the board for its review and comments. Once the board has reviewed the “draft” report, any comments on the audit findings, changes to text, and/or recommendations are discussed with the auditors and an agreement is reached on proper presentation.

With agreement on both sides, the auditors prepare a final draft to include any revisions. Auditors and the board again review the report and, barring any further disagreements, the auditors issue a final report.

6. Final Report

This final report is presented to the membership/delegates, by the board and/or audit committee or auditors, for final review. The report should contain the following information:

a. Audit Plan Review and Results to include:

- A review of the overall process used by the auditors (See items 1-5 of the Audit Plan).
 - **Example:** *Our primary objective* is to express an opinion that the financial statements, in all material respects, are presented fairly, etc.
- Statements on the required communications to the audit committee.
 - **Example:** *Auditor’s Responsibility Under Generally Accepted Auditing Standards* – Our audit of the financial statements for the year ended July 31, 20__ was conducted in accordance with auditing standards generally accepted in the United States of America.
- Management recommendations, if any.
 - **Examples:** *Credit/Debit Cards* – Currently, purchases made by employees on the association’s credit/debit card are not being approved by the board. Employees are required to maintain the receipts for their purchases and review/code the amounts in a program which tracks card activity. We also recommend that all credit/debit card activity be approved by the board before the invoice is paid. This will help ensure the correctness of all credit/debit card expenses.
 - *Board Response* – The board agrees that all credit/debit card activity should be reviewed and approved. We have implemented procedures to ensure that all credit/debit card activity is reviewed and approved before the invoice is paid.
- Summary of adjustments, if any. These could be audit and/or reclassification adjustments.
 - Listing of any changes that need to be made to the general ledger or documents due to incorrectly listed items. Example: an item listed as a debit instead of a credit or posted to the wrong income/expense account.

b. Financial Statement Presentation

This would include:

- *Independent Auditor’s Report* – Statement of auditor’s opinion on the financial statements.
- *Financial Statements - Year-to-year comparative balance sheet, income statement and statement of cash flow.* (Click the links below for examples of each.)
 - [Sample Balance Sheet](#)
 - [Sample Income Statement](#)
 - [Sample Cash Flow Statement](#)
- *Summary of Significant Accounting Policies.*



- **Example: Cash and Cash Equivalents** – Cash and cash equivalents include cash on hand and assets, with original maturities of three months or less, which can easily be turned into cash (e.g., CDs).
- *Notes to Financial Statements* – Detail on some of the more significant areas of the financials that may need further explanation.

7. Follow-up Review

If the final report contains any recommendations that need to be addressed, the auditor and the board should follow up to make sure that they have been implemented. This should usually occur within 30 to 90 days from the approval of the final audit report.

Evaluating and Engaging an Auditor for the Future

During and after the audit, audit committees evaluate the auditors' performance and recommend to the board whether to retain the same firm or outside committee for next year's audit, or whether to find a new one. Therefore, it is imperative that the audit committee is diligent in evaluating the auditors. The audit committee should consider a few questions about its relationship with the independent auditor and should also engage the association's officers and association manager for their comments.