Understanding Audits

Why an audit?

Bylaws require it (not all Bylaws require an audit, but many do)

Good practice to have a third-party accounting professional to review finances for accuracy.

An audit is not a forensic examination; they do testing of certain invoices and extrapolate.

Audit process:

-collect data: financial reports, contracts, minutes, reserve study, and questionnaires

-conduct testing and review of data

-prepare draft audit

-internal review

-send to Board/management

-return RL or ask questions

-final audit sent to Board/management

**Cover Letter**

-Provides outline for the documents

-Look for the opinion!! You want an unqualified audit (Important!!)

**Independent Auditor’s Report (The Numbers)**

-Balance Sheet (comparison)

-cash

-reserve equity

-operating equity

-A/P

-A/R

-Statement of Revenue and Expenses

-Gain or Loss

**Management Letter**

-Auditor passing on useful info (not required as part of the audit)

-Could be to do’s here for Board and manager

**Communication with Those Charged with Governance Under AU-C 260**

-Required letter

-Significant audit matters

-Difficulties encountered

-Disagreements with Management

Understanding Audits

**Communication of Significant Deficiencies and/or Material Weaknesses under AU-C 265**

-Letter will identify and deficiency auditor found in financial procedures

-may discuss the fact that EJF keeps books on a modified cash basis instead of full accrual

**Representation Letter (RL)**

-Required-must be signed by both management and a Board rep

-Essentially is a CYA for the auditor

-Basically says we gave them all the info we had related to the fiscal year being audited

**AU-C 265 Explanation Letter**

-Not required

-Provided only by Goldklang as an explanation for the “modified cash” deficiency noted in the **Communication of Significant Deficiencies and/or Material Weaknesses under AU-C 265;** essentially it explains the auditor must acknowledge this “deficiency” but that in practical terms tit makes sense and is acceptable