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