4.
Annual Audit Procedures
Audit Functions

Overview

Financial audits are a method of examination and verification of financial records or accounts. They are beneficial for both the club’s membership and club management.

External Audit

Due to the member-owned nature of clubs, most will require an audited financial statement to be prepared annually. An audited statement from an outside, independent accounting firm gives the members assurance that their assets are properly recorded and controlled and that income (or loss) derived from operating the club is properly stated. The selection of an independent auditing firm is critical to certifying management and board oversight of the club operation. The auditing firm should challenge club leadership to have the tightest control that the operation can feasibly undertake.

The controller and accounting office can have a great deal of impact on the time spent and, therefore, the cost of an external audit. Being prepared for when the auditors arrive is most vital. Insist the auditors supply an advance list of required schedules and reports and monitor the progress as the year-end process unfolds.

Usually the auditors will come out twice a club. They will come two to four months prior to year-end to do “interim work.” This usually involves reviewing monthly financial statements answering system and control questionnaires and doing a sample detail test of transactions; i.e., in payroll, accounts payable or receivable. The final visit will begin as soon as possible after year-end when the preliminary financial statements have been prepared. This time they will again review the financial statement and discuss and verify any unusual changes or items. They will require that every balance sheet account is reconciled to the general ledger which includes cash, accounts receivable, inventories, prepaid expenses, fixed assets and depreciation, accounts payable, accrued expenses, unearned income, other liabilities, debt and members’ equity.

The general manager must also establish a good rapport and communication path so that as problems arise they are discussed and handled directly to avoid any last minute surprises. A general manager should also request a “Management Letter” from the auditors. This letter will identify any major control or system weakness uncovered during an audit. However, due to the limits of the scope of review most external audits cover, a clean Management Letter does not give assurance that there are not weaknesses. It only states that none were uncovered.

Internal Audits

A good way to have the club’s systems checked in detail is to do an internal audit throughout the controller using an Internal Control Checklist. A checklist such as this can be completed periodically (e.g., twice a year) which will review systems of controls and operating policies. This procedure will verify that certain policies and procedures are in place and working. Without fail, as time progresses and personnel changes are made, accounting procedures will be dropped or modified and in some real ways the integrity of the financial operation will be compromised.