

Does My Association Really Need An Annual Audit?

This is a question that is being asked more frequently these days. Associations dealing with shrinking budgets are carefully examining each budget line item to identify areas of potential cost savings. One such area is the annual audit; which can represent a significant expense, especially for a smaller Association. But does your Association really need an annual audit? Possibly not. Before we explore the alternatives, **let's define what an audit entails.**

During a financial statement audit, professional standards require the independent auditor to obtain sufficient evidential matter in order to render an opinion as to whether the Association's financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles or GAAP. The audit procedures are quite extensive and are planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. The audit process is very thorough and exhaustive, and as such, expensive.

If outside parties or the Association's bylaws do not require an annual audit, then the Association may want to consider stepping down to a Review engagement. Review procedures consist primarily of analytical procedures performed and inquiries made of management. There is no opinion expressed regarding the reviewed financial statements; the accountant's review report provides limited assurance regarding any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with GAAP.

A significant benefit to the Association for choosing a review engagement is cost. **A review engagement is significantly less in scope than an audit and can save the Association anywhere from 30%-60% from the cost of having an annual audit conducted.** Additionally, many outside parties, such as banks, typically accept reviewed financial statements for their needs in lieu of audited financial statements. Finally, the Association continues to receive a complete set of financial statements for their records on an annual basis. Good candidates for review engagements are companies whose books and records are in fairly good shape that only require minor adjustments, if any.

Deciding on whether to continue having the annual audit or stepping down to a review engagement will depend on the facts and circumstances affecting your organization. **Cost is an important factor but not the only one.** For example, it has been my experience that taking a year off from having either an audit or review engagement performed can also be an expensive decision. One reason is that an audit entails testing both the beginning account balances as well as the ending account balances of the balance sheet. Therefore, in the subsequent year, the audit cost will be substantially higher if there is no prior year report to rely on for the accuracy of the beginning year account balances.

I would be remised if I didn't mention the third option, a compilation engagement. A compilation engagement is particularly appropriate when your need is only for a set of financial statements to assess the financial aspects of programs and activities. A compilation engagement requires substantially less work to prepare than an audit or a review engagement. The accountant is not required to make inquiries of management nor perform other procedures to verify, corroborate, or review information you supply. The accountant simply takes financial information that is the representation of management and puts that information into the form of financial statements in accordance with generally accepted accounting principles or GAAP. The cost associate with a compilation engagement can be significantly less than that of a review engagement; however, it is important to remember that the accountant does not express any assurance on the financial statements as management is responsible for the accuracy of the numbers underlying the financial statements.

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