

accounts payable • general ledger • direct support • debit • expense • depreciation • unrestricted • net asset • indirect support • asset • project



BOY SCOUTS OF AMERICA®

campaign • special event • liability • accounts payable • general ledger • direct support • permanently restricted •

expense • accrual • revenue

temporarily restricted • capital

permanently restricted •

asset • project sales • direct

payable • general ledger • direct support • accrual • credit • permanently restricted • expense • accrual • revenue •

Audit Committee Guidebook

project sales •

support • debit •

direct support •

accounts



net asset • liability • asset • indirect support • project sales • temporarily restricted • capital

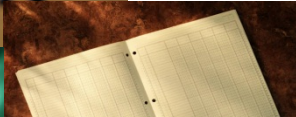
accounts payable • credit • general ledger • direct support • debit • permanently restricted •



depreciation • debit •

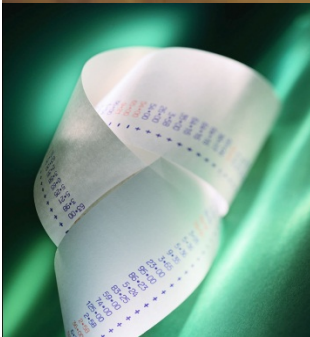
support • project sales • temporarily restricted • capital campaign • debit • accounts

support • debit • accounts payable • debit • general ledger • direct support • expense •



debit • credit • depreciation • unrestricted • net asset • indirect

asset • capital campaign • liability • special event • net asset •



expense • accrual • revenue • credit •

es • expense • asset • temporarily

or • direct support • permanently

indirect support • asset • project sales •

100,000	
10,000	
10,000	
75,000	
\$205,000	

special event • accounts payable • general ledger • direct

al • credit • depreciation • unrestricted • net asset • indirect

d • capital campaign • special event • liability • accounts



support • permanently restricted • expense • accrual • revenue • credit • depreciation •

support • asset • project sales • temporarily restricted • asset • project sales • liability •



debit • capital campaign • special event • accounts payable • general ledger • direct support •

ted • expense • accrual • credit • depreciation • unrestricted • net asset • indirect support • asset

temporarily restricted • capital campaign • special event • liability • accounts payable • general

ledger • direct support • permanently restricted • expense • accrual • revenue • credit • depreciation • unrestricted • net

asset • indirect support • asset •

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Chapter 1

Fiduciary Responsibility and Stewardship

Fiscal stewardship is a topic of critical importance to councils because it brings into focus several key issues, including fiscal accountability, legal responsibility, regulatory requirements, and delegated responsibility. First-class stewardship is expected. Financial difficulties, misuse of funds, and any other stewardship failure can have an adverse effect on a council's activities.

1.1 Fiscal Accountability

Public expectations for fiscal accountability have never been higher. From a legal standpoint, the board of the council is accountable for the property entrusted to its care. Although the board may empower others with managerial responsibilities, board members continue to have the primary responsibility for the council's operational and financial management.

1.2 Legal Responsibilities

Under well-established principles of nonprofit corporation law, board members must meet certain standards of conduct and attention in carrying out their responsibilities to the organization. Several states have statutes adopting some variation of these duties which would be used in court to determine whether a board member acted improperly. These standards are usually described as the duty of care, the duty of loyalty, and the duty of obedience (the "three Ds"):

1.2.1 Duty of care: Board members are expected to actively participate in organizational planning and decision making and to make sound and informed judgments.

1.2.2 Duty of loyalty: When acting on behalf of the organization, board members must put the interests of the nonprofit before any personal or professional concerns and avoid potential conflicts of interest.

1.2.3 Duty of obedience: Board members must ensure that the organization complies with all applicable federal, state, and local laws and regulations, and that it remains committed to its established mission.

In addition to its legal responsibilities, the board acts in a fiduciary role by maintaining oversight of the nonprofit's finances. Board members must evaluate financial policies, approve annual budgets, and review periodic financial reports to ensure that the organization has the necessary resources to carry out its mission and remains accountable to its donors and the general public.

Board members assume ongoing liability for acts of negligence or willful mismanagement of the council. Because councils solicit money from the public, council personnel and board members may be subjected to close scrutiny. Council personnel are covered by a fidelity bond. Because council officers and board members assume a potential of liability, the National Council has developed the Directors and Officers Liability Insurance, available to all councils of the Boy Scouts of America.

1.3 Regulatory Requirements

The trend in philanthropy in recent years has moved toward fuller and more accurate disclosure of charitable

organizations' activities and finances. The giving public is not the only group demanding full disclosure. Many states have enacted some type of registration requirements for not-for-profit organizations. Included in these requirements are limits on permitted activities, solicitation disclosures, and financial statement reporting requirements. Additionally, the federal government requires the filing of information returns, and many municipalities have local requirements for fundraising organizations.

1.4 Delegated Responsibility

Board members and officers rely heavily on the delegation of day-to-day responsibilities to the Scout executive and staff personnel. Therefore, the communication process among these individuals is crucial to ensuring sound stewardship.

Chapter 2 The Audit

An audit is an examination of the council's financial statements and the underlying accounting records in accordance with generally accepted auditing standards, the main objective of which is the expression of an opinion on the fairness of those financial statements. An audit is conducted after each fiscal year or other times (e.g., following a council merger or consolidation) as deemed necessary by the executive board.

2.1 Policy of the Boy Scouts of America

Local councils have a fiduciary responsibility to contributors. This responsibility mandates a “full disclosure” finance policy to the public. The policy of the Boy Scouts of America is for local council management to annually prepare a set of financial statements for an audit conducted by an independent auditor. Audits must meet current requirements set by the American Institute of Certified Public Accountants (AICPA), the Boy Scouts of America, and individual state and federal regulatory commissions.

From the local council Bylaws template, article X, section 2, clause 6: *“A statement of all income and expenses of the corporation during the fiscal year and a statement of all assets, liabilities, and net assets of the corporation as at the end of such year shall be duly audited and certified annually in accordance with generally accepted auditing standards, by certified public accountants or other recognized independent public accountants approved by the executive board or executive committee.”*

2.2 Council Action

Local councils are required to submit to the national office by June 1 each year, audited financial statements and other documents, including the following (A review or compilation is not acceptable.):

- A statement of financial position showing all three funds (operating, capital, and endowment) and a total of all three funds with comparative amounts [or totals] from the previous year
- A statement of activities and changes in net assets showing all three funds in the natural or functional presentation and a total of all three funds with comparative amounts [or totals] from the previous year
- A statement of functional expenses, including total expenses from all three funds and comparative amounts [or totals] from the previous year
- A statement of cash flows for all three funds and a total of all three funds with comparative amounts [or totals] from the previous year (using either the direct or indirect method in arriving at funds from operations)
- Notes to the financial statements
- The independent auditor's report stating an opinion or disclaimer thereof as to the fair presentation of the statements

The following must be submitted along with the audited financial statements:

- A copy of the Auditor's Communication with Those Charged with Governance (SAS 114) letter including uncorrected and corrected misstatements (i.e., audit adjustments)
- Copies of the Communicating Internal Control Related Matters Identified in an Audit (SAS 115) letter and the management response thereto
- A copy of the management representation letter
- A copy of the signed audit committee meeting minutes recommending that the audited financial statements be presented to the executive board for approval including acknowledgement of any BSA deficiencies noted in the prior year audit and steps taken to correct them in the current year

In addition, the following must be submitted to the national office when filed. The due date is May 15, but an automatic three-month extension to file may be obtained by filing Form 8868 by May 15.

- A copy of IRS Form 990 or 990-EZ and, if filed, IRS Form 990-T for the council
- A copy of IRS Form 990 or 990-EZ for council trust fund, if applicable

In an effort to reduce costs and the effect on our environment, all of the above documents may be emailed in portable document format (.pdf) to audits.990@scouting.org. Copies of the annual audited financial statements and supporting documentation should be maintained at the local council service center in case volunteers or other interested parties wish to review them.

Chapter 3

The Audit Committee

The audit committee represents an important resource for the executive board in fulfilling fiduciary responsibilities for the finances of the local council. The audit committee is an independent advisory group to the board. **As part of its National Strategic Plan, the BSA required all local councils to adopt, no later than December 31, 2011, an audit committee charter that is in compliance with guidelines outlined in the AICPA Audit Committee Charter Matrix.** See Appendix A for sample language that may be used by a council in developing an audit committee charter. While the plan has flexibility and may be designed to meet local council needs, the role of the audit committee is clear and should not be compromised.

3.1 Purpose

One proactive response in the area of accountability is the audit committee. It is being used successfully by publicly held commercial organizations as well as not-for-profit agencies. Its purpose is to assist the executive board in fulfilling the responsibilities related to accounting and financial reporting practices. To effectively fill this role, the council president must appoint the audit committee as a separate committee that reports to the executive board under his direction.

The audit committee is not intended to be the “auditor” of the local council. The audit committee is primarily interested in compliance with the local council’s policies and procedures, compliance with legal and regulatory requirements, and the presentation of accurate and meaningful financial statements in accordance with generally accepted accounting principles and the standards set forth by the Boy Scouts of America.

3.2 Composition

The audit committee is generally composed of three to five independent, financially literate individuals, but does not include local council officers or professional staff members, who may attend meetings but may not vote. Ideally, members have in-depth business knowledge, familiarity with accounting practices and concepts, and an interest in helping the council fulfill its fiduciary responsibilities. A majority of the audit committee should be members of the local council executive board. Other members should be local community leaders who believe in the benefits derived from an audit committee’s work. Parents of current Scouts, service club members, Eagle Scouts, and members of the local chapter of the state institute of CPAs or the National Association of Accountants are potential audit committee members. No employee of the council’s external auditors should serve on the committee. Audit committee best practice, although not a BSA requirement, is that at least one audit committee member meet the U.S. Securities and Exchange Commission requirements to be designated as an Audit Committee Financial Expert (as that term is defined by the SEC and summarized below under “Financial Expertise”).

3.3 Organization

The committee is appointed by and reports to the council board. The Scout executive or assigned staff member may sit as secretary of the committee, but is not a voting member. The chairperson shall be selected from among those members of the audit committee who are also members of the council executive board. The chairperson should be a respected member of the local council executive board, one who has served long enough to provide stability to the committee’s activities and has a proven interest in the fiscal management of the council. The chairperson must work closely with the Scout executive or assigned council

management representative in fulfilling the committee's responsibilities. See Appendix M for a sample audit committee chairperson job description.

3.4 Financial Expertise

The audit committee should have access to financial expertise, whether in the form of a single individual serving on the committee, who should also be a member of the board of directors, or collectively among committee members.

The following attributes are all deemed to be essential components of financial expertise:

- An understanding of generally accepted accounting principles, generally accepted auditing standards, and financial statements
- The ability to assess the general application of such principles and standards in connection with the accounting for estimates, accruals, and reserves
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the organization's financial statements, or experience actively supervising (that is, direct involvement with) one or more persons engaged in such activities
- An understanding of internal control and procedures for financial reporting
- An understanding of audit committee functions
- A general understanding of not-for-profit financial issues and specific knowledge of the standards set forth by the Boy Scouts of America

The following questions should be used to assess whether an individual audit committee member, or the committee as a whole, possesses the previously stated attributes:

- Does the individual or the committee as a whole comply with the state's requirements of audit committees regarding independence, expertise, membership, and shared responsibilities with the finance committee, and so on?
- Have one or more individuals completed a program of learning in accounting or auditing?
- Do one or more individuals have experience as a chief or principal financial officer (for example, finance director or business manager), principal accounting officer, controller, public accountant, or auditor?
- Do one or more individuals have experience in position(s) that involve the performance of similar functions?
- Have one or more individuals gained experience by actively supervising a person(s) performing one or more of these functions?
- Do one or more individuals have experience overseeing or assessing the performance of companies, not-for-profit organizations, or public accountants with respect to the preparation, auditing, or evaluation of financial statements? Do one or more individuals have other relevant financial

experience (for example, service on boards of banking or investment institutions or experience as a banker or investment adviser)?

- Do one or more individuals have experience serving on audit committees of other not-for-profit organizations?

3.5 Alternative Approaches

If no individual member of the audit committee possesses the attributes required for financial expertise and the committee members collectively do not possess such attributes, several of the following options might be considered:

- If potential volunteers with financial expertise have limited time to commit to an organization, it may be beneficial, if bylaws allow it, to open up membership of the audit committee to persons who are not also members of the board of directors or trustees.
- Establish a relationship with a peer or an otherwise comparable organization to have the CFO for one organization provide financial expertise to the other. Such arrangements can be reciprocal or involve multiple organizations.
- Establish a relationship with a financial professional who is engaged and compensated to provide financial expertise as a consultant to the audit committee. Such an individual must otherwise be independent with respect to the organization (that is, must have no other financial arrangements with the organization).
- Pursue a training program for audit committee members to develop the financial expertise. Such training can include participation in professional development programs offered by the AICPA, associations serving the not-for-profit industry, or the conduct of in-house training programs.
- Refer to Appendix B for resources available to the audit committee.

3.6 Responsibilities

The responsibilities of the audit committee include the following:

- Meet as needed to address matters on its agenda, but not less frequently than twice each year. See Appendix C for a recommended audit committee meeting schedule and timetable for audit work. Of course, additional meetings should be held to address matters such as possible conflict-of-interest situations and to monitor compliance with the council's code of conduct.
- Recommend to the board the appointment of the independent auditor to complete the annual audit of the financial statements of the BSA local council as required by the Standard Local Council Articles of Incorporation and Bylaws. See Appendix D for a sample letter from an audit committee member to request a proposal from an independent auditor.
- Have a planning meeting with the independent auditor and management to review the independent auditor's proposed audit scope and approach and approve the auditor's engagement letter. See Appendix E for representative questions to be used by the audit committee when reviewing the audit scope and approach. In addition, Appendix F includes a sample letter of engagement from the independent auditor. Appendix G lists some key items to look for in an

engagement letter.

- Review the independent auditor's fee arrangements.
- Have a post-audit meeting to review the draft copy of the financial statements and independent auditor's report and recommendations on internal control, operating procedures, and suggestions for improvements as outlined in the management letter. Review any BSA deficiencies noted in your prior year's audited financial statements and steps taken in the current year to correct them.
- See Appendix H for representative questions for reviewing the draft copy of the annual financial statements. Also, see Appendix I for a discussion of the management letter and representation letter.
- Review compliance of the audit with the BSA standards on accounting and adequacy of management's policies and procedures on accounting and make recommendations.
- Review the adequacy of disclosure of information with management.
- Present the audited financial statements and audit findings to the board following review with the independent auditor.
- Periodically review the council's system of internal control. See Appendix J for a discussion of how the audit committee can assist a council in strengthening their internal control system.
- Review the independent auditor's performance using the checklist in Appendix K.

3.7 New Audit Committee Member Orientation

Understanding a local council of the Boy Scouts of America—its operations, strategies, risks, culture, and management team—as well as the specific responsibilities that go with audit committee membership, can be a daunting task. That's why a solid orientation process—including essential briefing materials, discussions with key people, and a plan for getting up to speed—can greatly accelerate a new audit committee member's integration and contribution to the board's work. To learn more about the “onboarding” process for new local council audit committee members, join hosts Ken Moran, CPA, CGMA, and Coleman Ross, CPA, CMA, CIA, in this recorded webinar by clicking [here](#). Because the presentation has been recorded, you can access it whenever it is convenient for you.

Chapter 4 The Auditor

4.1 Qualifications

The audit examination should be conducted by an accountant who is both qualified and independent. Regardless of their qualifications, under the AICPA rules, members of the executive board are not considered independent, and may not perform the audit even though they may be willing to do so free of charge.

As to qualifications, certified public accountants must meet certain educational requirements and pass an exam. Depending on the state, they may also have to meet experience requirements before being certified to perform audits. The requirements to become a public accountant (but not certified) differ from state to state and are generally less demanding.

In choosing an auditor, the council should carefully consider the professional reputation of the prospective auditor, regardless of whether or not a certified public accountant is being considered, along with the council's particular requirements. Your state's board of accountancy will be able to tell you if a prospective auditor or audit firm is properly licensed and in good standing.

It is recommended that the council solicit bids for the audit every three to five years or change partners in the current firm every five years.

4.2 Overall Objectives

The overall objectives of the auditor, in conducting an audit of financial statements, are to

- a. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework (e.g., generally accepted accounting principles); and
- b. report on the financial statements, and communicate as required by generally accepted auditing standards, in accordance with the auditor's findings.

In all cases, when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, generally accepted auditing standards require that the auditor disclaim an opinion or withdraw from the engagement, when withdrawal is possible under applicable law or regulation.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4.3 Clarified Auditing Standards

In order to make generally accepted auditing standards for nonpublic companies easier to understand and apply, the AICPA's Auditing Standards Board launched its Clarity Project in 2004. Starting with Statement on Auditing Standards (SAS) No. 117 and continuing through SAS No. 127 (clarified and currently effective for local council audits), generally accepted auditing standards (GAAS) now more clearly state the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with U.S. GAAS. The Clarity Project will result in the first complete redrafting and recodification of U.S. GAAS since 1972. In addition to reformatting and reorganizing existing U.S. audit standards, the Clarity Project will integrate them with the International Standards on Auditing. When completed in 2014, clarified auditing standards will be issued as one SAS that will replace all prior SASs.

The clarified standards introduced many changes to GAAS including terminology used and the form and content of the auditor's report (see Appendix L for sample reports).

Chapter 5 The Auditor's Report

5.1 New Report Format

As discussed in the previous chapter, the auditor's report has changed under the new, clarified auditing standards and is in effect for local council 2012 audits. The new report format includes the following changes:

- The introductory paragraph has been shortened to exclude a statement of management's responsibility for the financial statements and the auditor's responsibility under generally accepted auditing standards in the U.S. It is possible that this paragraph would include a subtitle, *Report on the Financial Statements*, if the report also contains a paragraph subtitled *Report on Other Legal and Regulatory Requirements*, discussed below.
- Two new paragraphs have been added, each with its own heading: *Management's Responsibility for the Financial Statements* and *Auditor's Responsibility*, describing management's responsibility for the financial statements and the auditor's responsibility under generally accepted auditing standards in the U.S., respectively. The scope of the auditor's work is also described in the *Auditor's Responsibility* paragraph.
- The scope paragraph describing the auditor's work has been eliminated (see previous bullet point).
- The auditor's opinion paragraph now has a heading, *Opinion*.
- If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under generally accepted auditing standards to report on the financial statements, these other reporting responsibilities should be addressed in a paragraph following the *Opinion* paragraph and subtitled *Report on Other Legal and Regulatory Requirements* or otherwise, as appropriate to the content of the section.

5.2 Opinion Types

The various types of opinions that an auditor might form as a result of the audit are discussed below (updated to reflect the new, clarified auditing standards):

5.2.1 Unmodified opinion

This opinion, formerly known as an "unqualified" opinion, declares that the financial statements are fairly stated in accordance with generally accepted accounting principles. This is obviously the most desirable opinion as it unequivocally supports the reliability of the financial statements. See sample unqualified opinion in Appendix L.

5.2.2 Modified opinions

There are three types of modified opinions: namely, a *qualified* opinion, an *adverse* opinion, and a *disclaimer* of opinion. The decision regarding which type of modified opinion is appropriate depends upon the following:

- a. The nature of the matter giving rise to the modification (that is, whether the financial statements are

materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated)

b. The auditor's professional judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements

Qualified opinion—The auditor should express a qualified opinion when:

a. the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or

b. the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse opinion— The auditor should express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of opinion— The auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

For modified opinions, the AICPA defines the term “pervasive” as follows:

Pervasive. A term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that in the auditor's professional judgment

- are not confined to specific elements, accounts, or items of the financial statements;
- if so confined, represent or could represent a substantial proportion of the financial statements; or
- with regard to disclosures, are fundamental to users' understanding of the financial statements.

Please see Appendix L for sample auditor's reports.

Appendix A: Sample Local Council Audit Committee Charter

(From the AICPA Audit Committee Toolkit, Not-for-Profit Organizations, 2nd Edition)

Purpose

The audit committee oversees proper external review of the council's audited financial statements, as well as the council's risk management to include monitoring the internal control environment. Each member shall be free of any relationship that, in the opinion of the board, would interfere with his or her individual exercise of independent judgment.

Reporting

The audit committee reports directly to the council's board of directors (board).

Responsibilities

Specifically, the audit committee performs the following functions

- Develops and periodically reviews audit-related policies; has a regular process of determining whether it is receiving quality audit services for a fair price based on established policies and regulations;
- Meets with the audit firm to review the audited financial statements;
- Addresses any issues identified in the required communications and management letter;
- Solicits from the audit firm observations on staff skills, qualifications, and performance related to those audited functions;
- Reviews the performance of the auditors, ensuring continued independence;
- Reviews the audit plans for the coming year and discusses them with the external audit firm and internal auditor(s);
- Reviews with management, internal audit, and the external auditor the internal control process and risk management and mitigation process;
- Reports and recommends the results of audit findings to the board for approval;
- Acts as an external point of contact for any whistle-blowing issues, and, if necessary, initiates special investigations of policies, procedures, and practices;
- Reviews the IRS Form 990 annually, prior to submission;
- Reviews the IRS Form 990 for the council trust annually, if applicable, prior to submission;
- Reviews the presentation of the financial information in the annual report before it is printed;
- Conducts private executive sessions at least annually with the external auditors, person conducting the internal audit function, and management;
- Reviews the committee's charter annually, reassesses compliance with the provisions of the charter, and recommends any proposed changes to the board of directors;
- Reviews annually the council's document retention policy; and
- Reviews its own effectiveness annually.

Composition

- The committee consists of three to five persons, a majority of whom must be board members.
- The committee must include members with basic expertise in financial management; the committee may wish to consult with an independent financial expert on special topics.

■ The council's Scout executive and chief financial officer do not serve on the audit committee because they are not independent.

Terms

■ The members of this committee are selected by the board chair in consultation with the president and Scout executive and the audit committee chair, and are approved by the board.

■ All committee members, excluding the person serving as chair, may serve two three-year terms.

Meetings

The audit committee meets as needed to fulfill its responsibilities, but will meet at least twice annually: once to review the audit plan and once to review the audited financial statements, the IRS Form 990 and related documents and the IRS Form 990 for the council trust, if applicable, and approve the audit engagement and special investigations related to fraud, financial irregularities, and internal control failures.

Approved by the council's board of directors _____ on _____

Appendix B: Other Resources Available to the Audit Committee

From the National Council:

- Local Council Accounting Manual
- Local Council Administrative Review
- Local Council Guide to the Audit
- BSA Audit Toolkit
- Standard Local Council Articles of Incorporation and Bylaws
- Fiscal Management Procedures for Stewardship
- [BSA Fiscal Documents Library](#)

From the American Institute of Certified Public Accountants:

- Audit Committee Toolkit, Not-for-Profit Organizations
- Audit & Accounting Guide, Not-for-Profit Entities
- AICPA Professional Standards
- Not-for-Profit Entities—Accounting Trends & Techniques
- <http://www.aicpa.org>

Appendix C: Recommended Audit Committee Meeting Schedule and Timetable for Audit Work

By October 1	<p>Audit committee confirms engagement of auditor.</p> <p>NOTE: If engaging a new auditor, the committee may want to begin meeting as early as July.</p> <p>Audit committee meets with auditor and council management to:</p> <ul style="list-style-type: none">Confirm the scope of the audit.Review and approve estimated fees.Review the Local Council Guide to the Audit.Address significant planned changes in the council's accounting principles, policies, and practices.Address recent developments in accounting principles or reporting practices that might affect the council.
October– December	<p>Auditor performs interim fieldwork to include testing of inventory, confirmation of significant receivables, etc.</p>
As soon after year-end as is possible	<p>Council provides year-end trial balance to auditor.</p> <p>Council prepares confirmation requests.</p> <p>Auditor performs year-end fieldwork to include testing of inventory.</p> <p>Council completes account analysis work papers and pulls documentation for auditor.</p>
By May 1	<p>Auditor delivers draft of audited financial statements and management letter.</p> <p>Audit committee receives copies of the materials prior to the meeting and meets with management and auditor to review the drafts. Council management will participate in the review and may then be excused while the audit committee meets with the independent auditor. If no changes are made to the draft, the final audited financial statements and report could be approved at this meeting. The audit committee members should vote to accept the audit and recommend presentation to the executive board for approval. The committee determines how the audit will be presented to the board. Minutes of the meeting should be recorded and approved, signed by</p>

the audit committee chairperson and Scout executive and include:

- Attendance—people present and absent
- Actions taken

By June 1

Auditor delivers bound copies of the audit to the council.

Council submits audit and supporting documentation electronically to the national office.

Appendix D: Sample Letter of Request for Proposal

Date

Audit Firm Name

Address

City, State, ZIP

Dear Mr. _____:

Scope

It is the intent of the board of directors of the [name] Council, Boy Scouts of America, that there be conducted a comprehensive audit of the financial condition of the council. This audit is to be conducted by an independent certified public accountant. The audit should be performed in accordance with auditing standards generally accepted in the United States as defined by the American Institute of Certified Public Accountants (AICPA), and should include tests of the accounting records and other auditing procedures as deemed necessary by that accountant in order to ensure certification of the financial statements.

It is expected that a report will be submitted on the audit of the financial statements, certifying the fair representation of those statements. These reports should be submitted in sufficient detail as requested by the treasurer of the council or a designee. The final report should be delivered prior to [date—recommend May 1 or sooner] and be prepared in the format specified by the National Council, Boy Scouts of America.

Management Letter

The accountant should submit a management letter of suggestions for improvements in internal controls and accounting procedures to the president of the council. The certified public accountant should be available to discuss the contents of this letter at any time with the president, the treasurer, audit committee members, or finance committee members at their request, or at the designated exit conference.

Request for Proposal

The _____ Council, Boy Scouts of America, hereinafter referred to as “the Council,” is accepting proposals from CPA firms to provide audit, tax, and consulting services for the Council on a [one-,two-, or three-year cycle]. We invite your firm to submit a proposal to us by 5 p.m. [time zone] on [date] for consideration.

The proposals must be signed by an official authorized to bind the offerer, and shall contain a statement to the effect that the proposal is firm for a period of at least 90 days from the closing date for submission of proposals.

This solicitation does not commit the Council to award a contract, to pay any costs incurred in the preparation of a proposal, or to procure or contract for these services. The Council reserves the right to accept or reject any and all proposals received as a part of this request, to waive formalities, to negotiate with all qualified offerers, or to cancel in part or in its entirety this proposal, if it is in the best interest of the Council.

Services to Be Performed

Your proposal is expected to cover the following services:

1. Audit and preparation of standard financial statements for the Council.
2. Preparation of related IRS Form 990 or 990-EZ for the Council (including preparation of a separate Form 990 or 990-EZ for the Council’s trust fund, if applicable).
3. Usual audit report on accounting practices, internal controls and compliance, and accompanying notes.
4. Consultation as needed to facilitate the audit process.
5. A management letter containing suggestions for improvements in internal controls and accounting procedures as required by the National Council, BSA.
6. Presentation of said audit to the Council’s audit committee in draft form by [date—recommend no later than April 15] in any and all years under contract, to be followed by such discussion and consultation as is needed for the audit committee to approve the audit.
7. Preparation of adjusting entries, if any, to be submitted along with the draft audit report, in order to bring the Council’s software statements into complete agreement with audited statements. Said adjustments will be provided utilizing the account numbers found in a working trial balance provided by the Council, with the addition of any needed accounts from the master listing of available BSA account numbers, also provided by the Council.
8. Presentation of final audit to the Council no later than [date—recommend May 15] in any and all years under contract.

Key Personnel

Following are key contacts for information you may seek in preparing your proposal:

Name	Name
Accounting specialist	Scout executive
Full address	Full address
Work phone	Work phone
Email	Email
Name	
Audit committee chairperson	
Full address	
Work phone	
Email	

Other Pertinent Information

1. The Council will assist as follows:
 - Provide adequate space to efficiently conduct audits, with normally required electrical outlets, tables, and chairs.
 - Provide a copy of the most current version of Local Council Guide to the Audit that describes report formatting, pertinent information required for writing the notes section, and local council accounting policies.
 - Provide the prior year's Local Council Audit Review Record for use in ensuring the audit is judged "Compliant" by the National Council, BSA.
 - Prepare reports and schedules, and reproduce and provide documents as needed.
 - Provide copies of prior reports and management letters upon request. (These were prepared by [name of previous firm], who performed the most recent services for the fiscal year ending December 31, 20XX.)
2. If a part of the work covered by this request for proposal is to be subcontracted, the contractor shall identify the subcontracting organization and the contractual arrangements made with same. All subcontractors must be approved, in writing, by the Council.
3. All audited reports must be formatted to match the Council's same type report for ease of use and understanding by the Council's executive board members.
4. All applicable services should be performed in accordance with applicable FASB rulings, generally accepted accounting principles as adopted by the American Institute of Certified Public Accountants, BSA policy, and any other applicable requirements and standards that apply.
5. Submission of all audit-reporting packages required by any federal agencies or state entities will be the responsibility of the auditing firm.
6. [Number of] copies of the auditor's report, management letter, and internal control and compliance reports will be provided to the Council.
7. If additional work should have to be performed by the auditors due to initial work not meeting the auditing standards, such work will be done at no additional charge to the Council.
8. Subject to the provisions below, the contract may be terminated by the Scout executive of the Council.
 - a. Termination for Convenience: The Council may, without cause, terminate this contract in whole or in part at any time for its convenience with a ten (10) day written notice to the

contractor. In such instance, an adjustment shall be made to the contractor, for reasonable costs of the work performed through the date of termination. Termination costs do not include lost profits, consequential damages, or unabsorbed or absorbed overhead for the contractor or its subcontractors. The contractor expressly waives any damages or indirect costs which may arise from the Council's election to terminate this contract in whole or in part for its convenience.

b. Termination for Cause: Termination by the Council for cause, default, or negligence on the part of the contractor shall be excluded from the foregoing provisions. Termination costs, if any, shall not apply. The ten (10) day advance notice requirement is waived, and the default provision in this proposal shall apply.

9. The Council's accounting software has the ability to export the trial balance in electronic form. Depending on the accountant's software, it may be possible to import the trial balance into your software.

Your Response to the Request for Proposal

In responding to this request, please provide the following information formatted in the order listed:

1. Detail your firm's experience in providing auditing and tax services to companies in the not-for-profit field, as well as companies of a comparable size.
2. Identify the partner, manager, and in-charge accountant who will be assigned to our job if you are successful in your bid. Provide biographies, indicating any complaints against them that have been leveled by the state board of accountancy or other regulatory authority, if any. Indicate corrective actions that have been taken by the firm with respect to these people.
3. Describe how your firm will approach the audit of the Council, including the use of any association or affiliate member firm personnel.
4. Furnish standard billing rates for classes of professional personnel.
5. Set forth your fee proposal separately for each service, with whatever guarantees can be given regarding increases in future years.
6. Provide reference names and contact information for other not-for-profit, similarly sized clients of the partner and manager that will be assigned to the Council.
7. Describe how and why you are the best firm to be awarded the contract.
8. Include a copy of your firm's most recent peer review report, the related letter of comments, and the firm's response to the letter of comments.

Innovative proposals are encouraged; however, if your proposal includes any comment over and above the specific information requested above, you are to include this information as a separate appendix.

Evaluation of Proposals

The Council will evaluate proposals on a qualitative basis. This includes our review of the firm's peer review reports and related materials, interviews with senior engagement personnel to be assigned to the Council, results of discussions with other clients, and the firm's completeness and timeliness in its response to us. Any offerer or all offerers may be requested to make an oral presentation of this proposal to the Council's selection/review committee.

As previously mentioned, if you choose to respond to this request, please do so by 5 p.m. [time zone] on [date]. Thank you.

Sincerely,

[Name]

Chairperson of the Audit Committee

cc: Scout executive

Enclosures: Local Council Guide to the Audit; Local Council Audit Review Record

Appendix E: Representative Questions About Audit Scope and Approach

The following are questions the audit committee should ask a prospective auditor before engaging the auditor's services:

- Which areas do you plan to emphasize in your examination? Why?
- To what extent will you review the council's internal control system?
- How will this year's financial statements be affected by recent changes in accounting principles?
- How will your audit address the council's accounting system?
- To what extent can the planned audit scope be relied on to detect material errors, irregularities, and illegal acts?
- Does your audit include a review of management employees' expense accounts?
- On what date do you anticipate completion of the audit?

Appendix F: Sample Letter of Engagement From an Independent Auditor

This document was updated as a part of the new, clarified auditing standards (AU-C section 210) and is effective for audits of financial statements for periods ending on or after December 15, 2012.

(Written by the independent auditor to accept the engagement)

[Date]

Audit Committee

[Council]

Dear [name]

To the appropriate representative of those charged with governance of Local Council Inc.:

[The objective and scope of the audit]

You have requested that we audit the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

[The responsibilities of the auditor]

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with generally accepted auditing standards. In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

[The responsibilities of management and identification of the applicable financial reporting framework]

Our audit will be conducted on the basis that those charged with governance acknowledge and understand that they have responsibility

a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;

b. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

c. to provide us with

- i. access to all information of which [*management*] is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
- ii. additional information that we may request from [*management*] for the purpose of the audit; and
- iii. unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [*management and, when appropriate, those charged with governance*] written confirmation concerning representations made to us in connection with the audit.

[*Other relevant information*]

[*Other information inserted here, such as fee arrangements, billings, and other specific terms, as appropriate.*]

[*Reporting*]

We will issue a written report upon completion of our audit of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. We also will issue a written report on [*Appropriate reference to other auditor's reports expected to be issued inserted here.*] upon completion of our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of Local Council Inc. by

[*Signed*]

[*Name and Title*]

[*Date*]

Appendix G: Key Items to Look for in an Engagement Letter

The engagement letter serves as the annual contract for service between the auditor and council. It is written by the auditor to the council accepting the engagement to do the council's audit and outlining the terms of that engagement. It includes the responsibilities, costs, and timetable for that year's audit. The letter should be reviewed by the council audit committee before it is signed by the Scout executive. Below are some key items to look for in the engagement letter before signing it:

- Terms and objectives of the engagement
- Nature and scope of the services provided
- Nonattest services
- Timetable for the audit work
- Audit of financial statements for the year ended December 31, 20XX
- Use of generally accepted accounting principles
- Auditor's privacy policy and third-party reliance on the audit report
- Terms of resolution in the event of a dispute
- Auditor's response to conflict of interest
- Severability clause
- Written acceptance by the council
- Assistance and environment expected to be provided by the council
- Use of email communications
- Auditor's record retention policy
- Preparation of IRS Form 990 or 990-EZ
- Preparation of IRS Form 990 for council trust, if applicable
- Review of the council's control structure with notification through written SAS 115/management letter
- Communication to those charged with governance through written SAS 114 letter
- Pre-audit meeting to discuss audit scope and risk, and procedures that will be performed

- Post-audit meeting to review financial statements and management letter, including:
 - The initial selection of and changes in significant accounting policies and their application
 - The process used by council management in formulating particularly sensitive accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates
 - Audit adjustments that could, in the auditor's judgment, either individually or in the aggregate, have a significant effect on the council's financial reporting process
 - Any disagreements with council management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements
 - The auditor's views about matters that were the subject of council management's consultation with other accountants about auditing and accounting matters
 - Major issues that were discussed with council management in connection with the retention of the auditor's services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards
 - Serious difficulties that the auditor encountered in dealing with council management related to the performance of the audit
 - Handling of adjustments below materiality threshold
 - Request for the council to provide representation letter
 - Audit cost(s) and how extra services or costs will be determined and billing rate
 - Number of bound copies of audit to be provided

