Welcome to the Audit Committee, AICPA Matrix. This presentation will explore the AICPA’s Audit Committee Charter Matrix as a tool for local councils to use to build an effective audit committee charter that will guide an audit committee in achieving its objectives. A specific goal of the National Council Strategic Plan is for each local council to have established an audit committee no later than December 31, 2011 that meets the criteria set forth in the AICPA’s Audit Committee Charter Matrix. [Refer to Audit Committee Charter Matrix that should be distributed to each person]
The audit committee represents an important resource to the executive board in fulfilling fiduciary responsibility for and stewardship of the finances of the local council.

- **Fiscal Accountability** – high public expectations; board has primary responsibility

- **Legal Responsibility** – individually liable; councils solicit money from public; fidelity bond; Directors and Officers Liability Insurance

- **Regulatory Requirements** – Municipalities for fund-raising organizations. States registration requirements for NFP, i.e., permitted activities, solicitation financial reporting. Federal government information returns.

- **Delegated Responsibility** – Scout executive and staff personnel. Communication crucial.
An audit is an examination of the council’s financial statements and the underlying accounting records in accordance with generally accepted accounting principles, the main objective of which is the expression of an opinion on the fairness of the financial statements. An audit is conducted at the end of each fiscal year or other times as deemed necessary by the executive board.

- BSA Policy – per Charter and Bylaws of BSA. Annual set of financial statements for full audit by independent public accountant. Meet current requirements set by accounting industry, BSA, state and federal regulatory commissions.

- Definition – from local council Bylaws template. Audit: “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.”

- Council Action – required to submit annually to National Office by June 1. [Refer to list found in Audit Committee Guidebook that should be distributed to each person]
The audit committee is an independent advisory group to the board.

• **Purpose** – proactive in the area of accountability; assists the executive board; separate committee that reports to executive board. Not the auditor of the council. Primarily interested in compliance.

• **Composition** – three to five; independent; no council officers or staff; no employee of council’s external auditors; majority are members of executive board; financially literate; business knowledge; familiarity with accounting practices and concepts; interest in helping council fulfill its fiduciary responsibilities; local community leaders.

• **Organization** - appointed by and reports to council board; Scout executive may sit as secretary but does not vote; chairperson selected from members.

• **Financial Expertise** – single individual or collectively among committee members. Understanding of GAAP, GAAS, financial statements, internal control, audit committee functions, not-for-profit and BSA accounting.
The Audit Committee

• Alternative Approaches

• Responsibilities

• Alternative Approaches – if no financial expertise individually or collectively, if bylaws allow, don’t have to be members of the board; CFO from another NFP; paid consultant; training for audit committee members to develop financial expertise.

• Responsibilities – meet as needed, but not less than twice per year; recommend independent auditor; planning meeting with auditor; review auditor’s fee; post-audit meeting to review audited financial statements and reports; review compliance of audit and adequacy of disclosure; present audited financials to board; review council’s system of internal control; review auditor’s performance. There are various documents in the Appendices to the Audit Committee Guidebook which will be helpful to an audit committee in fulfilling their responsibilities.
The chairperson of the audit committee is responsible for providing leadership to the committee in fulfilling its duties and responsibilities under its charter. The chairperson is selected from members of the audit committee who are also members of the board.

• Qualifications – desirable to have financial expertise but not required as long as another individual on committee or members collectively have financial expertise.

• General Responsibilities – committee’s spoke person; provides to Scout Executive, the board, and external auditors advice on work of the committee; reviews annually and ensures compliance with audit committee charter; creates, monitors and modifies annual work plan for the committee; regularly assesses effectiveness of committee and reports to board in a timely and comprehensive manner; provides frequent educational opportunities for committee.

• Specific Responsibilities – schedules meetings of committee; creates meeting agendas consistent with charter and work plan; holds pre-audit-committee-meetings with Scout Executive, external auditor; provides materials to committee in advance of meetings; facilitates attendance of committee members; presides at meetings; attends meetings of other board committees as necessary; receives reports re: complaints, concerns, and breaches of the code of ethics.
The audit examination should be conducted by an accountant who is both qualified and independent.

• Qualifications – not member of board; educational requirement; properly licensed. Council should solicit bids for audit every three to five years or change partners in the current firm every five years.

• Role – Generally accepted auditing standards established by the accounting profession are the rules of conducting an audit: review, evaluate and document internal control; test selected transactions; verify or test year-end balances; form an opinion as to whether fairly stated in accordance with GAAP.

• Opinion – Unqualified – fairly stated in accordance with GAAP; qualified – limitations on scope of examinations, departure from GAAP; adverse – not fairly stated in accordance with GAAP; disclaimer – inability to express an opinion due to scope restrictions, inadequate records or internal controls.
Adopting and maintaining an audit committee charter is a best practice for not-for-profit organizations. It is required by some states. However, the charter is often adopted by the board and filed away except for its annual review. It is our hope that the Audit Committee Guidebook will help the audit committee make the charter a living document and use it to accomplish their objectives. [Refer to Appendix A: Sample Not-for-Profit Audit Committee Charter in Audit Committee Guidebook]. The charter should include the following provisions:

• Reporting – Audit Committee reports directly to the council’s board.

• Responsibilities – reviews audit-related policies; assesses whether receiving quality audit services for a fair price; addresses management letter issues; solicits input from external auditors on staff skills and performance; reviews audit plans; reviews internal control; reports audit findings to board; external point of contact for whistle-blowing issues; reviews audited financials and 990; reviews and recommends changes to charter; reviews document retention policy; reviews its own effectiveness annually.

• Composition – three to five; financial expertise; no council officers or staff; majority members of executive board.

• Terms – two three-year terms; selected by board chair in consultation with president and Scout executive, audit committee chairperson; approved by board.

• Meetings – as needed; at least twice annually: once to review audit plan and once to review audited financial statements, IRS Form 990, IRS Form 990 for Trust (if applicable)
• BSA Fiscal Management Team - An audit committee is not alone! In addition to compiling the Audit Committee Guidebook, the Fiscal Management Team of the Finance Impact Department of the Boy Scouts of America is available to support local council audit committees with many printed resources as well as personal contact through email and by phone. [Refer to Appendix B: Resources Available to the Audit Committee in Audit Committee Guidebook]. Point out resources available on http://scouting.org/financeimpact.

• American Institute of Certified Public Accountants – [Refer to Appendix B: Resources Available to the Audit Committee in Audit Committee Guidebook]
The audit committee should meet as needed to address matters on its agenda, but not less frequently than twice each year. This is a recommended audit committee 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. The schedule in your Audit Committee Guidebook begins with October 1 but if engaging a new auditor, the committee may want to begin meeting as early as July.

- By October 1 – confirm engagement of auditor; confirm scope of audit; approve estimated fees; review Local Council Guide to the Audit; address planned changes to council’s accounting principles, policies, and practices; address recent developments in accounting principles or reporting practices.

- October – December – auditor performs interim fieldwork.

- As Soon As Possible After Year-End – year-end trial balance to auditor; confirmations to auditor; council completes account analysis work papers and pulls documentation; auditor performs year-end fieldwork.
• By May 1 – auditor delivers draft of audited financial statements and management letter; audit committee reviews, recommends changes, approves and recommends presentation to board.

• By June 1 – auditor delivers bound copies of audited financials to council. Council submits audited financials electronically to National Office of BSA.
There is a lot of letter writing going on between audit committees and auditors! Samples of all these are found in your Audit Committee Guidebook.

- **Request for Proposal** – Appendix D. A letter from an audit committee member to request a proposal from an independent auditor.

- **Engagement Letter** – Appendix F. Serves as the annual contract for service between the auditor and the council. Auditor accepts the engagement and outlines the terms of the engagement. Appendix G lists the key items to look for in an engagement letter.

- **Management Letter** – basis for quick implementation of the procedures recommended by the audit; lists internal control weaknesses and recommendations for their correction.

- **Management Letter Response** – comments of Scout Executive concerning the implementation of the recommendations for correcting internal control weaknesses; required whether or not there are reportable conditions.

- **Representation Letter** – prepared by the auditor, printed on council letterhead and signed by Scout Executive and accounting specialist.
The expense of an audit is a significant line item on a council budget. But there are many ways the audit fee can be reduced.

• Implementing Recommendations – planning and preparing for audit; procedures manual; orderly and legible records; analyzing, preparing documentation, retrieving an re-filing records; cooperating fully with auditor; preparing financial statements in accordance with Local Council Accounting Manual.

• Conducting Inventory Properly – Because inventory frequently reflects a significant asset on the statement of financial position, it is subject to testing and verification. Calculating inventory properly can save an auditor time. Clear date with auditor; reduce inventory; label items with prices; store stock orderly; organized control sheets; count bulk packages in advance.

• Collecting Items – Auditor should provide a list of items, with the format specified, to be gathered and readily available when auditor arrives. Bank recs; subsidiary ledgers reconciled to general ledger; inventory detail; legal documents; cash disbursements and cash receipts support; activities records; budget with explanations of variances; board minutes; payroll records; all work papers; procedures manual; Local Council Accounting Manual; Local Council Guide to the Audit.
The audit committee is charged with reviewing the audited financial statements. This is why it is important to have financial expertise represented on the committee.

- **Reviewing Presentation** – Statements reflect proper presentation of all items. Investments; accounts receivable; inventory; fixed assets; accruals; contingent liabilities; legal matters; loans; adjustments; net assets; inter fund activity; three-fund format; consolidated audit; required financial statements presented correctly; required footnote disclosures.

- **Reviewing Accounting Policies** – Effects of any changes in policies properly presented. New or proposed changes in GAAP; management disagreement; consistent with Local Council Accounting Manual.

- **Reviewing Conduct of the Audit** – actual scope different from audit plan; scope limited or restricted by management; management cooperation; auditor given appropriate access to management.
Internal control is an important tool for the audit committee. Because the auditor is not assured of finding irregularities, a good system of internal control is the council’s best defense against such problems. Local councils and the environment in which they operate are dynamic. Internal control systems must change in response to this relationship.

- Reviewing Internal Control – changes in council requiring new controls; “surprises” encountered; explanations of variations from budget; management, accounting, or financial functions overextended.

- Strengthening Internal Control – use resources such as those found on Finance Impact Department website; procedures manual; segregation of duties; budgets; cooperation with auditor during review of internal control.
The audit committee should have the responsibility to hire, terminate, and evaluate the auditors. In discharging these responsibilities, the audit committee should consider a series of questions posed by the following individuals in order to evaluate the performance and effectiveness of the auditors.

- **Audit Committee Members** — Did auditors: meet with committee when requested; address issues of “tone at the top”; inform of risks; discuss quality of financial reporting; communicate issues freely; plan and conduct audit satisfactorily; remain independent and objective; promote a frank and complete relationship with committee; charge a fair fee; provide recommendations re: internal control; demonstrate understanding of not-for-profit and BSA accounting.

- **Scout Executive/Highest Level Finance Person** — Satisfied with auditors: scope, nature, extent and timing of testing; knowledge and skills; engagement leadership; recommendations re: internal control; quality and quantity of information provided relative to progress of audit; timing of identifying potential issues or problems. Would you hire them for next year?

- **Highest Level Accounting Person** — Satisfied with auditors: scope, nature, extent and timing of testing; knowledge and skills; engagement leadership; quality and quantity of information provided relative to progress of audit; timing of identifying potential issues or problems. Would you hire them for next year?
Questions?