

**CHAPTER AUDIT COMMITTEE**

**STANDING OPERATING PROCEDURE**

**I. RESPONSIBILITIES**

- A. To do a detailed examination of the most recent fiscal year's financial activities.
- B. To prepare and submit to the Board of Directors for acceptance, a report of the examination no later than the August Board of Directors meeting. The report is to include comparative financial statements of current to prior years and current year to budget if available.
- C. To prepare and submit to the Board of Directors, no later than the August Board of Directors meeting, a Management Letter outlining current accounting procedures that need attention and suggestions on correcting these areas.

**II. DUTIES**

- A. To examine the books and records of the Chapter at the close of the fiscal year.
- B. To present to the Board of Directors, no later than the August meeting, a report on that examination.

**III. PROCEDURES**

- A. Review Budget reports and compare with financial reports.
- B. Review Chapter Board of Directors meeting minutes for fiscal year and for any direction to Treasurer and/or modification{s} of budget.
- C. Review the findings of the audit with the Treasurer holding office for the period being audited.
- D. Furnish a copy of the completed/accepted audit report to the CSEA Office, and past and present Treasurer.

See Appendix A

## **CALIFORNIA SOCIETY OF ENROLLED AGENTS**

### **CHAPTER AUDIT COMMITTEE**

### **STANDING OPERATING PROCEDURE**

#### **APPENDIX A - AUDIT PROGRAM**

#### **I. PRIOR TO BEGINNING WORK**

- A. Obtain information to enable Audit Committee to prepare confirmations of:
  - 1. Cash Balances {with banks and other depositories}
  - 2. Accounts Receivable
  - 3. Prepaid Expenses
  - 4. Accounts Payable
  - 5. Note or Contract Balances Payable
- B. Obtain a complete set of the following documents:
  - 1. Minutes of the Board of Directors meetings for the period under audit.
  - 2. Approved Budgets for the period under audit including any amendments.
  - 3. Financial statements issued by Treasurer including any notes and comments relating to the statements.

#### **II. COMMENCEMENT OF AUDIT WORK:**

- A. Independent Cash Proof:
  - 1. List deposits by month from bank and money market statements. Total by month. Schedule interest earned deposits and review recording procedures.
  - 2. List disbursements form check stubs, check copies, or original records by month. Total by month.
  - 3. Reconcile bank accounts from above work sheets. Describe fully any adjustments to above reconciliation to reconcile with books and records.
  - 4. Compare work papers with Cash Received and Cash Disbursements journals and describe fully any differences by month.
  - 5. Compare results of {4} above with published reports, and describe any differences.
  - 6. Review the authorization of individuals who have signature authority on each account.

7. Review Internal Controls re: review of invoices to be paid by an individual not authorized to order or commit to expenditure. What controls are exercised regarding comparison with authorized budgeted items?

B. Cash Received Journal Review:

1. Determine and review the day-to-day incoming cash recording procedures.
  - a. Receipts Written:
    - i. How dated - upon receipt date or as deposited?
    - ii. What information is provided by the receipt record?
  - b. If no receipts are written, how is incoming money recorded?
  - c. Are duplicate deposit records made, and kept? If so, reconcile with Cash Receipts journals and Cash Proof, received versus deposited and internal controls exercised.
  - d. Reconcile all cash transfers between accounts and detail any time delays.
  - e. Select three {3} test months in the year under audit, and verify accuracy of recording the source of the deposits from the original records. Describe in detail any differences and if corrected, trace timing.
  - f. Determine by three {3} test months in the year of audit, the posting to the General Ledger of the sources of incoming cash.
  - g. Review cash management procedures concerning maximizing earnings.

C. Cash Disbursement Journal Review:

1. Determine three {3} test months and verify all journal information against actual checks issued and paid. Verify the following information:
  - a. Date of Check
  - b. Payee
  - c. Amount
  - d. Signatures
  - e. Endorsements {Do they conform to Payee?}
  - f. Date check cleared bank
2. Using same three {3} test months above, verify substantiation for check issuance:
  - a. Verify amount of invoice or invoices vs. check issued.
  - b. Check invoice description vs. classification in Cash Disbursements journal.
  - c. If a contract payment, review contract and determine time lines of payment. Make analysis of contract for liability portion of audit.
  - d. Determine procedure used for payment approval. {Analyze for proper Internal control.}

- e. Compare payment to amount actually budgeted for the item paid. Describe any variances.

D. Accounts Receivable:

1. List and age accounts from records. Select three {3} months {in each year under audit} for testing posting of data for accuracy.
2. After aging, select any accounts that are over 45 days old for complete analysis, and include in the audit report, a detail of improper controls on "old" accounts.
3. Comparison of the accounts receivable verifications received back from debtors should be made and the differences detailed, and followed up for any corrections necessary. {A 70% of outstanding dollar response rate should be considered the minimum acceptable.}
4. Review documentation of source of receivables incurred in the three months selected for the year.

E. Prepaid Expenses:

1. List and age accounts from records.
2. Analyze each item and describe expenditures as to:
  - a. Nature of item
  - b. Date it will be current expense
  - c. Conformity with Budget
3. Compare with confirmations received
4. Review and analyze original payment voucher as to timeliness and appropriateness of payment.

F. Accounts Payable:

1. List and age accounts from records.
2. Compare list with verifications received {70% of outstanding dollars is goal}.
3. Review all invoices comprising the accounts payable balances, and review the accounting interpretation of the liabilities as to accuracy regarding timing and description.
4. Trace all year-end liabilities to budget, and verify that outstanding liabilities have been accounted for in fund balances reserved for prior year expenditures.
5. Trace payments after end of year to ascertain actual payment of all liability balances. If not cleared, describe in detail.

G. Deferred Income:

1. Schedule the items per books.
2. Verify receipt dates and purpose of receipts.
3. Verify the clearance of prior year balances.
4. Determine date{s} items will become current income.

H. Contracts:

1. All contracts valid and outstanding at the beginning of the audit period, executed during the audit period and outstanding at the end of the audit period should be examined, scheduled, aged, and compared with the Board of Directors meeting minutes.
2. All contracts as described above should be compared with the budget.
3. Any new contract{s} executed during the current year should be examined as follows:
  - a. Purpose of contract
  - b. Authorized specifically by Board of Directors? By Budget? {state authority}.
  - c. If any questions as to the independence of the "outside" party, analyze, and state what results of investigation{s} if any, are available.
  - d. Verify consistency in accounting for all contracts and contract payments.
  - e. Independently verify balances at year-end re: confirmations and analyze results. A desired goal is 100% of year-end contract obligations.

I. Miscellaneous:

1. Analyze all Journal Entries.
2. At close of audit, compare financial statement issued with budget and note differences.
3. Fund balance should be analyzed as to Allocated and Unallocated Funds. Verify authorization of Allocated Funds to Board Meetings Minutes and Contracts.
4. Determine compliance with Federal and State Laws covering submission of information to CSEA for issuance of Forms 1099 & 549.
5. Complete audit report to be furnished to Board of Directors at close of audit.

# The Audit Process: The Auditor's Project Plan

## Phase I – Planning the Audit

- Evaluate the potential for management fraud, inadequate internal controls, or likelihood of bankruptcy.
- Obtain background information about the industry and the company.
- Obtain information about the company's legal obligations.
- Determine how sure the auditor needs to be that there are no material errors in the financial statements.
- Evaluate likelihood of material errors.

## Phase II – Testing Internal Controls

- Review policies, and work flow procedures.
- Evaluate the presence and effectiveness of internal controls to minimize likelihood of errors or fraud.
- Conduct compliance tests of transactions.
- Interview and observe client performing transaction processing.

## Phase III – Direct Testing of Balances

- Perform analytic procedures to assess overall reasonableness of balances.
- Independently verify balances with external parties (confirmation of balances).
- Perform detailed procedures to test for errors in balances (e.g., inventory counts).

## Phase IV – Completing the Audit

- Perform review of subsequent events to ensure that transactions are booked in the correct period.
- Review working papers to evaluate quality of audit team's performance.
- Review of the scope of work completed to ensure sufficient evidence has been collected to support an audit opinion.
- Issue the audit report.