

Fact sheet: Audit

Audit report — will you do my audit?

Thank you for your enquiry about auditing your club's annual financial statements. We regret that this practice does not conduct audits and we have to decline such an engagement. However, you are entitled to a brief explanation of why this is the case and we would like to explore alternative ways in which we may be able to help the club.

What auditing entails

Auditing is a specialist activity within accountancy. It is governed by over 30 professional standards and any firm that accepts audit work has to commit to knowing and complying with all those standards. Asking a non-specialist accountant to conduct an audit is a bit like asking your general practitioner to do a spot of open-heart surgery on the kitchen table.

Do you really need an audit?

There is a common misconception that all incorporated societies need to be audited. In fact the Incorporated Societies Act 1908 is silent on auditing and imposes no obligations.

The club's constitution may stipulate that an audit is required, but that can be changed by the members. They may be perfectly happy with one of the alternatives listed below. A revised constitution can always allow for the members to vote on having an audit if they are concerned about aspects of the financial statements.

Funding bodies often request a copy of audited accounts. This usually stems from a misunderstanding about what assurance an audit gives and ignorance of its cost. Funders' information needs can usually be better and more economically served by a targeted or 'compliance' audit. See #3 below.

In circumstances where there is significant concern about the reliability of the financial report it is an audit that will give the most robust reassurance that matters have been reported properly.

Other options to consider

1. Compilation by a Chartered Accountant

To an accountant, auditing is verification of a financial report that someone else has prepared. Many non-accountants do not understand the distinction and use the word 'audit' to mean preparation by a professional accountant from the prime records kept by the Treasurer. We call this 'compilation' and our firm is very well qualified to undertake this for the club. And even if the members decide to continue with an audit, we could do the compilation — prepare proper accounts with full supporting workpapers — before a specialist does the audit. It is not a good idea to have the same firm do both because they are then auditing their own work.

Like auditing, a chartered accountant's compilation work has to measure up to a professional standard and a report is issued. However, there will be no assurance expressed on the correctness of the underlying information.

2. A Review Engagement

The end result of an audit is a positive opinion that the financial statements do comply with generally accepted accounting practice and give a true and fair view. A review engagement produces an opinion 'that nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view.'

This negative assurance is obviously a lesser level of comfort for the readers of the accounts, but it involves less work and is therefore less costly. It is nevertheless governed by a professional standard and the underlying work has to meet that standard.

The difference between the cost of a review engagement and an audit depends on the nature of the entity. It is true, but not very helpful, to say that the cost for a review is normally between 30% and 90% of an audit fee. You would have to obtain estimates for each type of assignment to sensibly measure the potential saving for your club.

As with an audit, it is desirable that a review is conducted by someone other than the preparer of the accounts. Our firm [does/does not] conduct review engagements.

3. A Compliance Audit

Organisations that make grants to clubs typically want reassurance that their money has been spent as they intended. For example, if a grant is made for resealing the tennis courts, the funding body would most properly be concerned if its money instead paid for the committee to go to Wimbledon.

To give audit-level, positive assurance on whether or not the terms of the grant were complied with is normally far quicker, easier and cheaper than a full audit of the financial statements. There are nevertheless still two professional standards that govern such work so grant-providers can have confidence in the report that is issued.

We [are/are not] competent to undertake a compliance audit for you.

The three procedures described above are not mutually exclusive. It is quite possible to have a compilation or a review engagement performed on the complete financial report for the benefit of the members and a compliance audit conducted on the expenditure of grant monies.

I trust this has given you some constructive options to consider. I would be happy to elaborate on any of the concepts described above and to hear what course your committee decides to pursue.

Last reviewed on 16 June 2016

Important: Clients should not act solely on the basis of the material contained in this article. Items herein are general comments only and do not constitute nor convey advice per se. Changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This article is issued as a helpful guide to our clients and for their private information. Therefore it should be regarded as confidential and should not be made available to any person without our prior approval.