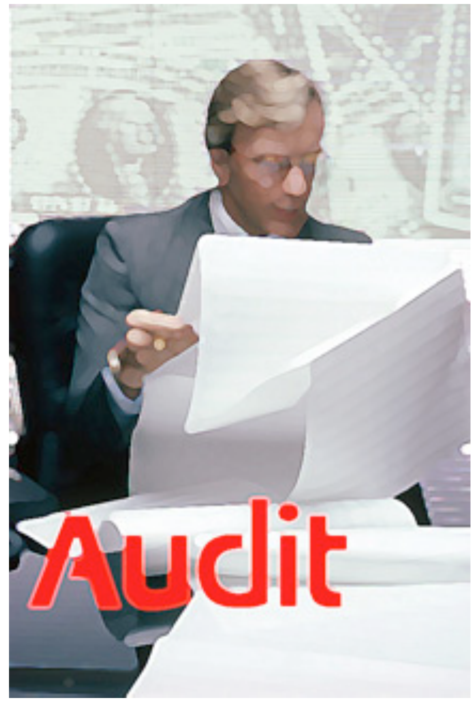
The Importance of the Yearly Audit



The governing documents for many associations require that a yearly audit be completed on the financial records of the association. An audit is designed to provide reasonable but not absolute assurance that financial statements prepared by the treasurer, management company or outsourced bookkeeper are fairly presented and in conformity with the American Institute of Certified Public Accountants' (AICPA). Generally Accepted Accounting Principles (GAAP). Some associations have the option of obtaining a review or compilation. A review is less inclusive than an audit and does not provide the assurance offered by an audit of disclosure of significant matters. A compilation is the lowest level of financial review offered by a Certified Public Accountant. It is designed to reveal obvious material errors the auditor may notice as he or she recompiles the financial statements provided by the association into an appropriate year-end format. Unfortunately, many documents and state statutes do not require a financial review by an accounting firm on any level.

Required or not, an audit is one of the most important methods that can be used to protect an associationassociation's financial assets because it is a formal method of checking the financial records and procedures. The fiduciary duty of the board requires that it act for the benefit of the community as a whole. The community has put its trust in each director when it elects him/her to serve on behalf of the association. This duty entails exercising reasonable business judgment when making a decision in order to avoid the possibility of being considered negligent in fiduciary duties. The association's documents make the board responsible for the financial management of the association. An audit will trace transactions to any supporting documents and authorizations, will review the minutes and legal documents of the association, and will point out weaknesses in accounting procedures. It should contain information concerning non-compliance with statutes, liabilities that could affect future finances, and failure to use a cost-effective income tax strategy. It will also point out the existence of an inadequate repair and replacement fund and it will analyze the cash flow of funds and any resulting shortages that could be offset by an investment program.

In addition, the association's financial records disclose an area of exposure to possible losses and, as such, should be closely inspected. An audit would address issues concerning financial management and would suggest appropriate changes in procedures. Although an audit might not reveal a potential conflict of interest (possible loss due to a lawsuit), it would include notes concerning related party transactions. Every condominium association board would be prudent to protect its association by requiring the preparation of an annual audit.

An audit is a valuable tool that can be utilized to correct financial problems that may exist as the auditor will offer suggestions for appropriate changes in procedures to improve the financial management of the association. The audit should not be relied upon as assurance that the association's financial assets are being protected. The board must remain diligent and use every means available to ensure that the financial interests of the association are safe. The use of qualified financial advisors can be extremely important when determining additional measures to protect financial assets. An audit is only the first step in fulfilling the board's fiduciary responsibility for the financial prosperity of the association they are entrusted to safeguard.

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