

GARY WALTRIP, CPA
PLANNING DOCUMENTATION
FOR AUDITS OF HOMEOWNERS ASSOCIATIONS

Introduction: This document is intended to meet the requirements of SAS 22 and 48 as well as SAS 78 and SAS 55, *Consideration of the Internal Control Structure in a Financial Statement Audit* and SAS 47, *Audit Risk and Materiality in Conducting an Audit*, and SAS 82, *Consideration of Fraud in a Financial Statement Audit*.

This document should be completed prior to beginning field work, since it may affect the scope and direction of the audit, and affects such items as sample size, materiality and tolerable misstatement. This planning document is a guide only and may not cover every item that is pertinent to a given engagement. Therefore, this guide should be expanded or amended as circumstances dictate.

SAS 78 & 55 require that the auditor (1) understand the internal control environment, (2) document his understanding of it, and (3) assess the level of control risk, i.e., to determine which internal controls, if any, that we will rely on to reduce substantive audit tests.

The Internal Control Structure consists of:

1. The Control Environment - Includes management's integrity and ethical values, commitment to competence, degree of participation by the Board of Directors, management's philosophy and operating style, management's organizational structure, and the assignment of authority and responsibility.
2. Management's Risk Assessment - The policies and procedures management uses to identify and manage the risk that financial statements might be misstated. This includes management's procedures to ensure that all transactions are properly recorded.
3. Control Activities - Policies and procedures to reasonably assure the HOA's objectives will be achieved. These include proper authorizations of transactions, segregation of duties, design and use of documents and records for proper accounting, safeguards over access to and use of assets and records, and independent checks on proper valuation of recorded amounts (e.g., bank reconciliations, clerical checking of invoices, etc.).
4. Information and Communication - This includes the accounting system, i.e., all methods and records used to identify, assemble, classify, record and report the HOA's transactions and maintain accountability for the related assets and liabilities. It also includes methods used to communicate rules and internal control responsibilities to staff.
5. Monitoring - The process management and/or the Board of Directors use to assess the quality of internal control performance, the design and operation of controls over time, and taking corrective action when necessary.

NOTE: ANY CPAs USING THIS PLANNING DOCUMENT DO SO AT THEIR OWN RISK. IT SHOULD BE AMENDED TO FIT THE CIRCUMSTANCES OF EACH CLIENT, AND IS NOT INTENDED TO REPLACE THE AUDITOR'S JUDGMENT.

CLIENT: _____

PERIOD ENDED: _____

INITIAL PLANNING AND OVERVIEW

STEP NO.	PLANNING STEP	YES	NO	N/A
A-1	Have there been any significant changes in operations since the prior year, e.g., changes in management, changes in the accounting system, the makeup of the board of directors, etc? If so, describe.			
A-2	Are there any areas requiring additional audit emphasis, such as the arise or conclusion of significant litigation, the levy of special assessments, discovery of construction defects, completion of new replacement funding studies? If so, describe (use additional sheets as necessary):			
A-3	Have any new pronouncements been issued which might impact the audit procedures and/or reporting requirements of this client? If so, list here.			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
THE CONTROL ENVIRONMENT**

STEP NO.	PLANNING STEP	YES	NO	N/A
B-1	Does the management company have a good reputation in the CIRA and business community?			
B-2	Do management personnel seem to have a positive attitude towards integrity, ethical values, and competence? (Clues might include professional credentials such as PCAM, involvement and support for industry organizations and standards.)			
B-3	Does the association appear to have adequate personnel to achieve segregation of duties?			
B-4	Does the board of directors appear interested and involved in the financial affairs of the Association?			
B-5	Does the board delegate decision making to the manager to an excessive degree, e.g., by allowing him to make contracts and sign checks?			
B-6	Do members of the board of directors and committees of the board have a clear understanding of their duties and functions?			
B-7	Note any further pertinent observations here:			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
MANAGEMENT'S RISK ASSESSMENT**

STEP NO.	PLANNING STEP	YES	NO	N/A
C-1	Has management assessed the risk of material misstatement in the financial statements due to the following:			
C-2	Change in management companies?			
C-3	New computerized accounting system (i.e., new software package)?			
C-4	Changes in accounting procedures, including new types of transactions, reduced personnel, changes in segregation of duties?			
C-5	Changes in official pronouncements?			
C-6	Document any other pertinent facts or observations here:			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
CONTROL ACTIVITIES**

STEP NO.	PLANNING STEP	YES	NO	N/A
D-1	Does the Association receive financial statements and reconciled bank statements on a regular basis, preferably monthly?			
D-2	Does the board regularly compare actual financial performance to budget and investigate major fluctuations?			
D-3	Does the board of directors monitor performance of key management personnel, employees, and contractors?			
D-4	Does the board of directors monitor the Association's long term funding needs for major repairs and replacements, including regularly updating its replacement funding study in light of changing circumstances?			
D-5	Does the board record its decisions by maintaining accurate minutes of meetings of the board and committees of the board?			
D-6	Add any other pertinent comments or observations here:			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
CONTROL PROCEDURES**

STEP NO.	PLANNING STEP	YES	NO	N/A
	Indicate which control procedures are in operation by checking the appropriate response below.			
E-1	<u>Accounts Receivable</u> Are accounts receivable listings aged to identify delinquent accounts?			
E-2	Are delinquent accounts pursued for collection in a timely manner?			
E-3	Does the Association have a written collection policy, and has it been sent to all members?			
E-4	Are liens filed in a timely manner to enhance collectibility of overdue accounts?			
E-5	Are bad debt write-offs reviewed approved by the Board?			
E-6	Are member and other checks received by the Association restrictively endorsed (i.e., stamped "for deposit" to Association) immediately after the mail is opened?			
E-7	Are cash receipts deposited soon after receipt, e.g., daily?			
E-8	If the Association is on an accrual basis for internal bookkeeping, are subsidiary ledger accounts periodically reconciled to the general ledger?			
E-9	Note any other pertinent observations here:			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
CONTROL PROCEDURES**

STEP NO.	PLANNING STEP	YES	NO	N/A
	<u>Cash Disbursements</u>			
E-10	Does the Association use prenumbered checks and are they issued in numerical sequence?			
E-11	Are checks only prepared on the basis of a properly approved invoice or check request?			
E-12	Are invoices and bills from suppliers and vendors checked for mathematical accuracy and proper pricing prior to payment?			
E-13	Are invoices verified as to proper account classification in the Association's general ledger?			
E-14	Are invoices stamped "Paid," or perforated or clearly marked in some way to prevent duplicate payment?			
E-15	Do checks require dual signatures, where appropriate, e.g., for amounts over a specified limit?			
E-16	Does the accounting supervisor who signs checks examine invoices or other supporting documentation at the time the checks are signed?			
E-17	Does the Board have a policy of never making checks payable to cash?			
E-18	Does the Board have a policy of never presigning blank checks?			
E-19	Are signed checks mailed without allowing them to return to the person who prepared them?			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
CONTROL PROCEDURES**

STEP NO.	PLANNING STEP	YES	NO	N/A
E-20	<p><u>Payrolls</u> Do different people do the following:</p> <p style="padding-left: 40px;">A. Approve hours worked as recorded on time cards?</p> <p style="padding-left: 40px;">B. Prepare paychecks?</p> <p style="padding-left: 40px;">C. Distribute paychecks?</p>			
E-21	Are adequate personnel records maintained, including employment applications, forms, performance reviews, and approvals for pay increases?			
E-22	Are written approvals required before one can be added to or deleted from the payroll?			
E-23	Are records maintained of available benefits, e.g., unused vacation, sick days, etc?			
E-24	Are the mechanics of payroll preparation rechecked and mathematical calculations reverified?			
E-25	Record any further pertinent observations here:			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
CONTROL PROCEDURES**

STEP NO.	PLANNING STEP	YES	NO	N/A
E-26	<p><u>Cash and Bank Accounts</u></p> <p>Are bank statements reconciled by someone with no other cash receipts and disbursements functions?</p> <p>Note: "other cash functions" above include making bank deposits, recording cash receipts, writing checks or approving checks for payment.</p>			
E-27	Does the bank reconciler receive the bank statement unopened (to prevent loss or alteration of reconciling items)?			
E-28	Does the bank reconciler compare details of paid checks with their entry in the cash disbursements journal?			
E-29	Does the bank reconciler examine paid checks for unauthorized signatures, alterations, or irregular endorsements?			
E-30	Record any further pertinent observations here:			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
INFORMATION, COMMUNICATION & MONITORING**

STEP NO.	PLANNING STEP
F-1	<p><u>The Accounting System</u>. Is it maintained in-house, or prepared by outside contractors? Computerized or manual or a mixture of both? What software packages are used, if it is an in-house, computerized system? Describe any outside service bureaus used, e.g., Safeguard Payroll system, ASI Lockbox system, etc.</p>
F-2	<p>Communication - Are there established accounting policies and procedures, and are they communicated to management or board employees effectively?</p>
F-3	<p>Monitoring - Is the Board of Directors sufficiently involved in day to day operations to timely detect significant variances from expected results?</p>

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
FRAUD RISK ASSESSMENT**

STEP NO.	PLANNING STEP	YES	NO	N/A
	MANAGEMENT CHARACTERISTICS			
G-1	Do management attitudes indicate inappropriate values or ethics?			
G-2	Do either management or the Board of Directors have an agenda that might affect their objectivity or impact financial reporting, e.g., the avoidance of high budget overruns or increases in dues?			
G-3	Does the Board of Directors exercise effective oversight of the management function?			
G-4	Does management or the Board use ineffective accounting personnel?			
G-5	Does management have a poor reputation in the CIRA community?			
G-6	Are the general ledger, audit trails or financial records inadequate or incomplete?			
G-7	Have there been numerous high budget variances in the recent past?			
G-8	Is there a high turnover in management level employees?			
G-9	Have there been disputes with predecessor auditors over accounting principles, financial statement disclosures or the scope of audit procedures?			
G-10	Is the CIRA under the control of individuals (developers, board members, etc) who may have financial interests contrary to the members?			
G-11	Are there significant related party transactions that could represent a conflict of interest among Board members?			
G-12	Has the CIRA failed to comply with regulatory agency requirements, such as HUD, that might motivate management to falsify financial statements?			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
FRAUD RISK ASSESSMENT**

STEP NO.	PLANNING STEP	YES	NO	N/A
	<p>ASSETS SUBJECT TO MISAPPROPRIATION</p> <p>G-13 Does the CIRA adequately safeguard any highly liquid assets such as bearer bonds or other investments?</p> <p>G-14 Does the CIRA adequately safeguard any small fixed assets subject to misappropriation, such as computers, tools and equipment?</p> <p>G-15 Is the CIRA exposed to possible payroll fraud or unauthorized disbursements that may be material to the financial statements? (See following section for details)</p> <p>G-16 Are key employees subject to mandatory vacations?</p> <p>G-17 Describe any additional fraud factors here:</p>			

**CONSIDERATION OF THE INTERNAL CONTROL STRUCTURE:
ASSESSING CONTROL RISK**

STEP NO.	PLANNING STEP
H-1	<p>Background information. Assessing control risk is the process of evaluating the effectiveness of the Association's policies and procedures in preventing or detecting material misstatements in the financial statements.</p> <p>Control risk should be assessed in terms of the financial statement assertions. Financial statement assertions for a homeowners association generally include the following:</p> <ul style="list-style-type: none"> A. <u>Cash and investments</u> - recorded amounts exist and are available B. <u>Accounts receivable</u> - recorded amounts are collectible C. <u>Prepaid expenses</u> - amounts are properly reflective of future benefits D. <u>Accounts payable & accrued expenses</u> - recorded amounts are complete and not materially understated E. <u>Revenues and expenses</u> - are free from cutoff and processing errors <p>In addition, all financial statement assertions include <i>existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure.</i></p>
H-2	<p>Assess the level of control risk for this engagement. Control risk is hereby assessed at (check one):</p> <p style="text-align: center;">_____MAXIMUM</p> <p style="text-align: center;">_____BELOW MAXIMUM</p> <p>If control risk is assessed at below maximum for any financial statement assertion, set forth in a separate memo the specific internal control procedures that are relevant and revise the audit program to test the effectiveness of those procedures. Note W/P reference and other pertinent information below.</p>

CLIENT: _____

PERIOD ENDED: _____

DETERMINATION OF MATERIALITY

NOTE: The consideration of materiality is a matter of professional judgment, and is influenced by the auditor's perception of the needs of a reasonable person who will rely on the financial statements. If a misstatement is so great that it would change or influence the judgment of a reasonable person who is relying on the financial statements, then that misstatement is material for audit purposes.

The auditor uses the assessed level of materiality to (1) aggregate known misstatements, enabling him to recommend audit adjustments or to pass on them, and (2) to project misstatements detected in substantive tests to account balances or classes of transactions, and (3) to assess the overall risk that material misstatement exists in the financial statements under audit so that audit tests can be expanded or changed, as necessary, to detect and thus correct such misstatements, and (4) to determine whether or not the auditor's opinion should be qualified or an opinion should be disclaimed, based on the auditor's knowledge of misstatement or his or her assessed risk of misstatement.

Compute planning materiality as follows, using the SMALLER of revenues or assets:

1 FINANCIAL STATEMENT CATEGORY	2 PERIOD OR DATE	3 FINANCIAL STATEMENT AMOUNT	4 %	5 MATERIALITY BASE AMOUNT
TOTAL ASSETS				
TOTAL REVENUES				

MATERIALITY BASE AMOUNT (column 5) is computed by multiplying column 3 by column 4, using the smaller of total assets or total revenues.

PERCENTAGE to use in Column 4: Although there is no specified formula to determine materiality for any given client, the author does not recommend a percentage larger than 5%. The percentage may be lowered for larger clients. The determination must be made by the auditor based on his consideration of all known facts and circumstances. After determining the materiality base amount above, the auditor may reduce the base amount further to arrive at a *tolerable misstatement*. **Any misstatements, individual or cumulative, that exceed tolerable misstatement must be adjusted in the financial statements or the audit opinion must be modified.**

TOLERABLE MISSTATEMENT IS SET AT: \$ _____.