

**GARY WALTRIP, CPA**

**STANDARD AUDIT PROGRAM FOR HOMEOWNERS ASSOCIATIONS**

(WITHOUT significant payrolls, fixed assets, long-term debt or expense accruals)

Instructions to Staff: This audit program is only a guide, and is not intended to replace the accountant's judgment. The audit program should be revised, if necessary, to fit the requirements of each engagement, based on the client's specific circumstances and an understanding of the client's accounting system and internal control structure.

Initials of accountants signing off program steps:

<b>ACCOUNTANT SIGNING OFF</b>	<b>INITIALS</b>

NOTE: The "Audit Objectives" described at the top of each section describe the *financial statement assertions* that are to be tested.

## PLANNING THE AUDIT ENGAGEMENT

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objectives:</u></p> <p>(1) To establish understanding with the client about the scope of our services and obtain required representations of management.</p> <p>(2) To obtain an understanding of the client, its accounting system, and to identify areas of concern to the engagement.</p> <p><b>Preliminary Planning:</b></p>	
A-1	Prepare an engagement letter and ask the president or treasurer to sign and return it to us.	
A-2	Review prior period working papers, memoranda, accountant's report, financial statements, management letters, tax returns, and any other documents considered relevant.	
A-3	Confer with appropriate client and audit team personnel to identify staffing needs and time table for completion.	
A-4	If this is a new engagement, contact the prior auditor to determine if there are any unusual problems or reasons why we should not accept this engagement. Determine whether we can rely on the work done by the prior auditor with regard to beginning balances.	

## PLANNING THE AUDIT ENGAGEMENT

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><b>Preliminary Fieldwork:</b></p>	
A-5	Obtain and check (or prepare) classified comparative working trial balance which follows the format and classifications of the financial statements.	
A-6	<p>Make a preliminary determination of materiality for planning purposes based on the working trial balance, and document this amount in the working papers.</p> <p>NOTE: Use the firm's standard worksheet for this purpose.</p>	
A-7	Obtain a copy of the current period's budget for the working papers, and review significant budget variances with the property manager or treasurer. Document explanations of these variances by making written comments on the workpaper copy of the budget, and note the name of person furnishing the explanations.	
A-8	Obtain a copy of the budget for the year following the period under audit, and note any significant increases in the regular assessment or the levy of any special assessments. Consider disclosing any significant increases or special assessments as a subsequent event.	
A-9	<p>Interview the property manager, bookkeeper and/or treasurer and:</p> <p style="padding-left: 20px;">(a) Obtain an understanding of the client's accounting system and document flow, including documentation of the internal control structure (control environment, accounting records and control procedures).</p>	

## PLANNING THE AUDIT ENGAGEMENT

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
A-11	<p>Minutes of the Board of Directors:</p> <p>(a) Read all minutes of Board of Directors for the period under review, as well as the period following the balance sheet date, if available.</p> <p>(b) Prepare a workpaper summarizing the important details of each Board meeting. Important details include, but are not limited to, the following:</p> <ol style="list-style-type: none"> <li>1. Commitments, contingencies, or subsequent events;</li> <li>2. Explanations of budget variances;</li> <li>3. Explanations of large repair items;</li> <li>4. Discussion of replacement reserve funding needs;</li> <li>5. Opening and closing of bank accounts;</li> <li>6. Bad debts or uncollectible receivables;</li> <li>7. Unpaid liabilities or payables existing at the balance sheet date;</li> <li>8. Transactions with related parties.</li> </ol>	
A-12	<p>Prepare a workpaper for related party transactions and do the following:</p> <p>(a) List all related parties, e.g., names of the members of the Board of Directors.</p> <p>(b) Describe any related party transactions noted in the minutes, such as hiring owners or their family as outside contractors, vendors, or property managers.</p>	

## GENERAL LEDGER AND JOURNAL ENTRIES

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objective:</u> To identify the general ledger or similar record that summarizes financial information from source documents or subsidiary records; to ascertain that this record is adequately maintained.</p>	
B-1	Obtain and check (or prepare) classified comparative working trial balance which follows the format and classifications of the financial statements.	
B-2	Ascertain that adjusting journal entries at close of preceding period are properly reflected or reversed, as necessary, in the current period.	
B-3	Review all general ledger accounts and ascertain that postings have been checked in connection with some section of the audit programs.	

## BANK ACCOUNTS

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objectives:</u></p> <ul style="list-style-type: none"> <li>(1) Existence, ownership, and availability of recorded cash balances;</li> <li>(2) Proper cut-offs for period receipts and disbursements;</li> <li>(3) Proper recognition of all reconciling items between book and bank balance.</li> </ul>	
C-1	<p>Consider confirming bank accounts as of balance sheet date if the condition of the records so warrant.</p> <p>NOTE: Per SAS 67, the confirmation of bank accounts is not a required audit procedure, but should be considered if original bank statements and other audit evidence are lacking. Confirmations may also be used on a test basis.</p>	
C-2	<p>Determine that the client prepared bank reconciliations on a timely basis, and that reconciliations agree with the general ledger.</p>	
C-3	<p>Obtain and check (or prepare) bank reconciliations for all bank accounts as of balance sheet date and reconcile book balances with general ledger.</p>	
C-4	<p>Obtain copies of passbooks or savings account statements as of the balance sheet date, and agree or reconcile balances to general ledger.</p>	
C-5	<p>Ascertain whether client has more than the FDIC insured limit in any one bank; if so, summarize the amount at risk on the Cash lead sheet for footnote disclosure as a concentration of credit risk.</p>	

## BANK ACCOUNTS

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
C-8	<p>Test bank reconciliations as of the balance sheet date as follows:</p> <ul style="list-style-type: none"><li>(a) Trace deposits in transit as shown on the reconciliations to subsequent bank statements, or if not available, to validated bank deposit slips, and ascertain that time lag is reasonable.</li> <li>(b) Sort out canceled checks received with bank statements for month immediately following the balance sheet date, and ascertain that they are listed as outstanding on the bank reconciliation.</li> <li>(c) Ascertain that outstanding checks which are material in amount and which did not clear the bank within a reasonable period are proper.</li> <li>(d) Ascertain that reconciling items other than outstanding checks and deposits in transit are proper. Verify interest income for the year by reference to the savings account passbooks or statements.</li></ul>	

## ACCOUNTS RECEIVABLE - CASH RECEIPTS SYSTEM

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objectives:</u></p> <p>(1) Proper recognition of assessments revenue, accounts receivable and prepaid assessments;</p> <p>(2) Proper period cut-offs;</p> <p>(3) Propriety and collectibility of accounts receivable balances;</p> <p>(4) Proper recording and application of cash receipts.</p>	
D-1	<p><u>Accounts Receivable:</u></p> <p>Obtain and check (or prepare) lists of accounts receivable balances as of the balance sheet date and prepare journal entry, as necessary.</p>	
D-2	<p>For seriously overdue member accounts, inquire as to whether or not liens have been filed, and discuss probability of ultimate collection with client or property manager.</p>	
D-3	<p>Consider the necessity for an adjustment for bad debt expense for accounts that are dubious of collection. Reclassify credit balances, if material, as a liability (assessments received in advance).</p>	
D-4	<p>Consider confirmation of accounts receivable.</p>	
	<p style="text-align: center;">NOTE: Per SAS 67, confirmation of accounts receivable may be waived if total balances are immaterial to the financial statements or there is a perceived lack of effectiveness in confirmations.</p>	

## ACCOUNTS RECEIVABLE - CASH RECEIPTS SYSTEM

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
D-6	<p><u>Gross Assessments Revenue:</u> Ascertain the propriety of recorded amounts of gross assessments revenue for both regular and special assessments by reference to budgets and board resolutions, as appropriate, and by recomputing gross assessments based on the rate charged to various unit owners.</p>	
D-7	<p><u>Cash Receipts Journal:</u></p> <p>(1) Select three days of receipts from different (preferably non-consecutive) months from the period under audit and perform the following:</p> <ul style="list-style-type: none"> <li>(a) Vouch cash receipts to remittance advices or other source document, as appropriate.</li> <li>(b) Compare dates and amounts of daily deposits as recorded in cash receipts journal with entries on bank statements.</li> <li>(c) Trace individual owner receipts to credit in owner's individual A/R record (subsidiary A/R journal).</li> <li>(d) Trace or reconcile each the total of each day of receipts to the general ledger postings (i.e., Dr Cash, Cr Accounts Receivable).</li> <li>(e) Foot each day of receipts selected for testing.</li> </ul>	

PREPAID EXPENSES AND OTHER ASSETS

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objective:</u> Reasonableness and expectation of future benefits of prepaid expenses and other assets</p> <p>E-1 Obtain and check (or prepare) a schedule of prepaid insurance, taxes, and any other prepaid expenses, and reconcile with general ledger.</p> <p>E-2 Ascertain propriety of amounts by such means as reviewing calculations and by reference to supporting documents, related expense accounts, etc.</p> <p>E-3 Review insurance coverage to determine that it appears reasonably adequate.</p> <p>Note: Accountants are not expected to be experts on insurance. However, the accountant should determine that there is:</p> <ul style="list-style-type: none"> <li>(1) comprehensive liability coverage for at least \$ 1 million,</li> <li>(2) fire and flood coverage for replacement cost,</li> <li>(3) directors and officers liability coverage,</li> <li>(4) employee dishonesty coverage, and</li> <li>(5) workers compensation coverage.</li> </ul> <p>Any omitted coverages should be pointed out to the client, preferably in writing.</p>	

FIXED ASSETS & LEASES

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
F-1	Obtain and check (or prepare) schedule of noncancellable leases, and review rental expense accounts to ascertain that schedule is complete.	
F-2	Ascertain whether any noncancellable leases should be capitalized or only disclosed in the financial statements.	
F-3	Review any major repair and maintenance expenditures and ascertain whether or not such repairs should be capitalized instead of expensed.	

## ACCOUNTS PAYABLE - CASH DISBURSEMENTS SYSTEM

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objective:</u> To inquire as to the reasonableness of recorded accounts payable and accrued expenses</p>	
G-1	<p><u>Search for material unrecorded liabilities:</u>                      For period immediately following balance sheet date:                      (a) Scrutinize recorded payables and cash disbursements.                       (b) Scrutinize unpaid invoices.</p>	
G-2	<p>Determine the necessity of accruing utility and other periodic bills if billings for these items will not be received by the end of fieldwork. (Note: just because the client has not received a billing does not mean that a liability does not exist).</p>	
G-3	<p>Prepare a list of accounts payable as of the balance sheet date and make any necessary adjusting journal entry.</p>	
G-4	<p><u>Purchases Journal &amp; Cash Disbursements Journal:</u>                      (1) Select at least one purchases journal entry for each month (including an adequate sample of replacement fund disbursements) of the period under audit and perform the following:                       (a) Vouch disbursements to vendors' invoices noting account distribution, date, and amount.                       (b) Trace transaction to its subsequent payment in the cash</p>	

ACCRUED AND OTHER LIABILITIES

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit objectives:</u></p> <ol style="list-style-type: none"><li>1. Recorded amounts are mathematically correct;</li><li>2. Proper relationship between expense amounts and accruals</li></ol> <p>I-1 Obtain or prepare a schedule of accrued and other liabilities in comparative form with prior year, and agree or reconcile to general ledger.</p> <p>I-2 Recompute, to the extent feasible, amounts (accrued salary, interest, etc.).</p> <p>I-3 Compare current year balances to those of prior year and ascertain reasons for significant fluctuations.</p>	

## ACCRUED INCOME TAXES

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<u>Audit Objective:</u> Reasonableness of accrued or prepaid income taxes, income tax expense and related disclosures	
J-1	Examine copies of tax returns filed during the period.	
J-2	Prepare a list of payments during the period, for both taxes due at the end of the prior fiscal year as well as estimated payments for the current fiscal year.	
J-3	Summarize taxable income and deductible expenses for the period, and compute income tax expense as well as amounts payable or refundable.	
J-4	Propose any necessary adjusting journal entries.	

## FUND BALANCES

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<u>Audit Objective:</u> Proper classification and disclosure of changes in fund balances	
K-1	Obtain and check (or prepare) a schedule of replacement fund balance, showing beginning balance, additions, deductions, and other changes, and ending balance, and reconcile with general ledger.	
K-2	Reconcile ending fund balances to cash and other assets, less accounts payable and other liabilities, in the balance sheet.	
K-3	Determine that restricted funds are accounted for separately from operating funds, and that the two are segregated in the financial statements.	
K-4	Determine whether there are any prior period adjustments, and if so, that they are properly presented and disclosed.	

## COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<u>Audit Objective:</u> Adequacy of disclosure of commitments, contingencies, and subsequent events	
L-1	Inquire as to whether there is any litigation in progress, and the status of such litigation; consider reading any legal complaints or correspondence from the attorneys.	
L-2	Review all invoices from attorneys for the year under audit to ascertain whether any of the charges appear related to pending or threatened litigation. (If in doubt as to the nature of the charges, request that client send an attorney's letter.)	
L-3	If step L-1 or L-2 indicates there is pending or threatened litigation, request an attorney's letter of inquiry be sent to the Association's attorney pursuant to the requirements of SAS 12.	
L-4	Ascertain that the budget for the period subsequent to the period under audit has been approved by the homeowners, and that it provides funding for the long-term replacement program.	
L-5	If there has been no study of the adequacy of the replacement funding program, or if the study shows the program to be inadequate, ascertain that the accountants' report or financial statement footnotes disclose this fact.	
L-6	Ascertain whether any contingencies should be provided for in the financial	

## COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
L-8	<p>Inquire as to any SUBSEQUENT EVENTS, i.e., significant events occurring after the balance sheet date that might influence the users of the financial statements. Examples would include, but are not limited to the following:</p> <ol style="list-style-type: none"> <li>1. The arise or conclusion of significant litigation;</li> <li>2. The levy of special assessments;</li> <li>3. Substantial increase in the regular assessment;</li> <li>4. Cancellation of insurance coverage;</li> <li>5. Natural disasters, such as fire or flood;</li> <li>6. The discovery of significant structural defects in the development's construction;</li> <li>7. Significant changes in the association's organization or legal form.</li> </ol>	
L-9	<p>Determine whether any identified subsequent events require adjustment to, or only disclosure in, the financial statements.</p>	

## ANALYTICAL REVIEW

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<p><u>Audit Objective:</u> To inquire as to the causes of major fluctuations of income and expense with the prior year</p>	
M-1	<p>Compare adjusted balance sheet accounts to prior year's balances and obtain explanations for significant fluctuations from the prior year.</p> <p>NOTE: this comparison does not normally include either fund balances or cash, since these items fluctuate as a factor of income and expense.</p>	
M-2	<p>Compare all income and expense accounts to prior year's balances and obtain explanations for significant fluctuations from the prior year.</p>	
M-3	<p>Review nature of expenses and sources of other income.</p>	
M-4	<p>Investigate any significant amounts in such accounts as "Miscellaneous," "Sundry" or "Other," and consider appropriate classification of such amounts.</p>	
M-5	<p>Document the client's explanations of the significant fluctuations, and indicate the date and name of the personnel interviewed.</p> <p>Note: significant fluctuations may be evidence of unrecorded liabilities or misclassifications of expense. Your inquiries should satisfy you that no adjustments are needed to correct a material error.</p>	

## REPLACEMENT FUNDING PROGRAM

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
N-1	<p><u>Audit Objective:</u> To obtain information on the Association's funding program for major repairs and replacements, as required by the CIRA Guide.</p> <p>Obtain a copy of the Association's most current replacement funding study that shows:</p> <ul style="list-style-type: none"> <li>(1) a list of common area components that the association is required to maintain, with replacement cost, total estimated life for each and total remaining life for each;</li> <li>(2) assumptions used, including interest earned on savings, inflation rate assumed, number of years in the window for cash flow models, etc;</li> <li>(3) who performed the funding study, and if the board, how they determined replacement costs and lives of the components.</li> </ul>	
N-2	Review the funding study for overall reasonableness of presentation and assumptions.	
N-3	Check the math by footing the replacement costs of the components and check calculations of amounts needed for current funding.	
N-4	Determine that the information in step N-1 is adequately disclosed in the unaudited supplementary information required by the CIRA Guide.	

## FINAL ADMINISTRATIVE PROCEDURES

Client: \_\_\_\_\_

Period Ended: \_\_\_\_\_

ITEM NO.	AUDIT PROCEDURE	DONE BY
	<u>Audit Objective:</u> To obtain required client representations and finish the audit	
O-1	At the end of field work, ask the client for a representation letter signed by the President or Treasurer. (If client declines to sign a representation letter, it will be necessary to qualify the audit opinion or to disclaim an opinion).	
O-2	Discuss any proposed adjustments with the property manager or Treasurer, and provide them with a copy of the adjusting entries.	
O-3	Issue the audit report and audited financial statements.	
O-4	Determine if there are any reportable conditions (nonmaterial weaknesses) in internal control and discuss recommendations for improvement with client; document this discussion in the working papers, and consider a formal management letter.	
O-5	Determine if there are any material weaknesses in internal control that require a formal management letter to the client that describes the weakness and the recommended action for improvement. Issue the management letter, if applicable, and include a copy in the general file.	

**QUALITY REVIEW CHECKLIST FOR FINANCIAL STATEMENTS**

**QC**

**CLIENT \_\_\_\_\_ A/R/C AUDIT**

**YEAR ENDING \_\_\_\_\_**

<b>Item No.</b>	<b>Quality Control Procedure</b>	<b>Done By</b>
	<p><u>WORKING PAPERS:</u> Check to see that --</p> <p>A-1 All working papers prepared by assistants been reviewed and initialed by the proprietor, and all working paper balances traced to the final trial balance.</p> <p>A-2 All open point sheets have been completed and removed from the working papers.</p> <p>A-3 Analytical reviews have been completed and documented.</p> <p>A-4 Planning documentation, risk assessment and internal control structure review have been completed and documented in the general working papers.</p> <p>A-5 All work program steps have been signed off.</p> <p>A-6 A representation letter signed by the client or his authorized representative has been obtained and is included in the working papers.</p> <p>A-7 A final copy of the audit report has been included in the working papers.</p> <p><u>ACCOUNTANT'S REPORT:</u> - Prior to issuance, do the following:</p> <p>B-1 Read the accountant's report and footnotes for spelling and grammatical errors.</p>	