

EXPERTS' CORNER

Q What is the fiduciary role of the audit committee in private clubs?

A It is the audit committee's job to assist the club's board in fulfilling its oversight responsibilities by monitoring the integrity of the club's financial accounting processes and systems of internal controls regarding finance, accounting and the use of assets.

A club's board of directors (the board) generally establishes the audit committee as a standing committee of the board and approves the Audit Committee Charter, which outlines the purposes, powers and duties of the committee.

In recent years, audit committees have become even more important to ensuring clubs have strong financial practices. Increased scrutiny and demands for accountability and transparency have cemented audit committees as a best practice for all clubs.

Organization and Composition

The audit committee should consist of three or more members—as determined and appointed by the board—none of which should be club officers. Committee members should be free from any relationship that, in the opinion of the board, would interfere with the exercise of their independent judgment as members of the committee. Furthermore, at least one committee member should have “accounting or related financial management expertise,” as determined by the board. The board should also designate one member of the committee as its chairperson.

Purpose

The purpose of the audit committee is to assist the board in fulfilling its oversight responsibility relating to:

- The integrity of the club's financial statements
- The club's financial reporting practices
- The club's system of internal control
- Independent auditor's qualifications
- The independent auditor's independence
- Performance of the independent auditors

The Independent Audit

Each year, the club should have an independent, external firm of certified public accountants conduct an external

audit of its annual financial statements. A large part of the audit committee's duties is to monitor the independence and performance of the club's external auditors, including approving any related audit or non-audit services provided by the club's external auditing firm.

During the auditing process, the club's independent external auditors are required to communicate certain matters about the scope and results of the club's audit that may assist the audit committee in overseeing the financial reporting and disclosure process. There should be an open line of communication between the audit committee and the independent auditors. In addition, the board, management and the independent auditors should have direct and unrestricted access to members of the committee at any time during the year to discuss issues, should the need arise.

Meetings

The audit committee should meet at least two times each year or more frequently as circumstances warrant. The committee should conduct a pre-audit meeting prior to the commencement of the annual audit and a post-audit meeting after the conclusion of the annual audit. Prior to the conclusion of each meeting, an executive session should be held with the auditors without management present. After the auditors have left, the committee should hold a separate executive session with just management. This provides an opportunity for both the auditors and management to have a private discussion with the audit committee. Though there is generally nothing additional reported during the executive sessions that has not already been said or discussed, conducting these executive sessions is widely considered a “best practice.”

The audit committee should maintain a written record of the committee meetings that should be submitted to the board at its next scheduled meeting. In many cases, the chair of the audit committee may also be invited to provide an oral report to the board.

Audit committees are a crucial part of a club's financial management, helping clubs ensure integrity and accountability in their financial and accounting practices and supporting their growth and success.



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