BOY SCOUTS OF AMERICA

Audit Committee Guidebook

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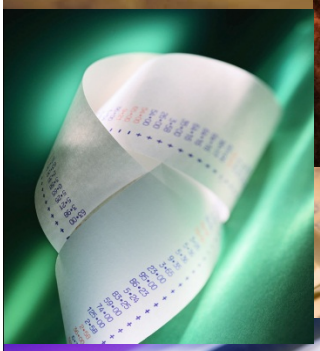

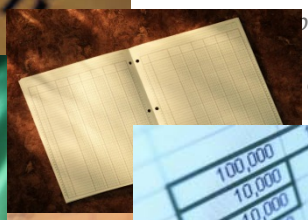

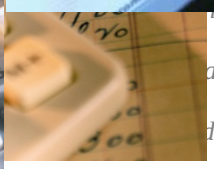

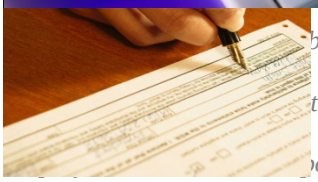

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Chapter 1
Fiduciary Responsibility and Stewardship

Fiscal stewardship is a topic of critical importance to councils because it brings into focus several key issues, including fiscal accountability, legal responsibility, regulatory requirements, and delegated responsibility. First-class stewardship is expected. Financial difficulties, misuse of funds, and any other stewardship failure can have an adverse effect on a council's activities.

1.1 Fiscal Accountability

Public expectations for fiscal accountability have never been higher. From a legal standpoint, the board of the council is accountable for the property entrusted to its care. Although the board may empower others with managerial responsibilities, board members continue to have the primary responsibility for the council's operational and financial management.

1.2 Legal Responsibilities

Under well-established principles of nonprofit corporation law, board members must meet certain standards of conduct and attention in carrying out their responsibilities to the organization. Several states have statutes adopting some variation of these duties which would be used in court to determine whether a board member acted improperly. These standards are usually described as the duty of care, the duty of loyalty, and the duty of obedience (the "three Ds"):

1.2.1 Duty of care: Board members are expected to actively participate in organizational planning and decision making and to make sound and informed judgments.

1.2.2 Duty of loyalty: When acting on behalf of the organization, board members must put the interests of the nonprofit before any personal or professional concerns and avoid potential conflicts of interest.

1.2.3 Duty of obedience: Board members must ensure that the organization complies with all applicable federal, state, and local laws and regulations, and that it remains committed to its established mission.

In addition to its legal responsibilities, the board acts in a fiduciary role by maintaining oversight of the nonprofit's finances. Board members must evaluate financial policies, approve annual budgets, and review periodic financial reports to ensure that the organization has the necessary resources to carry out its mission and remains accountable to its donors and the general public.

Board members assume ongoing liability for acts of negligence or willful mismanagement of the council. Because councils solicit money from the public, council personnel and board members may be subjected to close scrutiny. Council personnel are covered by a fidelity bond. Because council officers and board members assume a potential of liability, the National Council has developed the Directors and Officers Liability Insurance, available to all councils of the Boy Scouts of America.

1.3 Regulatory Requirements

The trend in philanthropy in recent years has moved toward fuller and more accurate disclosure of charitable

organizations' activities and finances. The giving public is not the only group demanding full disclosure. Many states have enacted some type of registration requirements for not-for-profit organizations. Included in these requirements are limits on permitted activities, solicitation disclosures, and financial statement reporting requirements. Additionally, the federal government requires the filing of information returns, and many municipalities have local requirements for fundraising organizations.

1.4 Delegated Responsibility

Board members and officers rely heavily on the delegation of day-to-day responsibilities to the Scout executive and staff personnel. Therefore, the communication process among these individuals is crucial to ensuring sound stewardship.

Chapter 2
The Audit

An audit is an examination of the council's financial statements and the underlying accounting records in accordance with generally accepted auditing standards, the main objective of which is the expression of an opinion on the fairness of those financial statements. An audit is conducted after each fiscal year or other times (e.g., following a council merger or consolidation) as deemed necessary by the executive board.

2.1 Policy of the Boy Scouts of America

Local councils have a fiduciary responsibility to contributors. This responsibility mandates a "full disclosure" finance policy to the public. The policy of the Boy Scouts of America is for local council management to annually prepare a set of financial statements for an audit conducted by an independent auditor. Audits must meet current requirements set by the American Institute of Certified Public Accountants (AICPA), the Boy Scouts of America, and individual state and federal regulatory commissions.

From the local council Bylaws template, article X, section 2, clause 6: *"A statement of all income and expenses of the corporation during the fiscal year and a statement of all assets, liabilities, and net assets of the corporation as at the end of such year shall be duly audited and certified annually in accordance with generally accepted auditing standards, by certified public accountants or other recognized independent public accountants approved by the executive board or executive committee."*

2.2 Council Action

Local councils are required to submit to the national office by June 1 each year, audited financial statements and other documents, including the following (A review or compilation is not acceptable.):

- A statement of financial position showing all three funds (operating, capital, and endowment) and a total of all three funds with comparative amounts [or totals] from the previous year
- A statement of activities and changes in net assets showing all three funds in the natural or functional presentation and a total of all three funds with comparative amounts [or totals] from the previous year
- A statement of functional expenses, including total expenses from all three funds and comparative amounts [or totals] from the previous year
- A statement of cash flows for all three funds and a total of all three funds with comparative amounts [or totals] from the previous year (using either the direct or indirect method in arriving at funds from operations)
- Notes to the financial statements
- The independent auditor's report stating an opinion or disclaimer thereof as to the fair presentation of the statements

The following must be submitted along with the audited financial statements:

- A copy of the Auditor's Communication with Those Charged with Governance (SAS 114) letter including uncorrected and corrected misstatements (i.e., audit adjustments)
- Copies of the Communicating Internal Control Related Matters Identified in an Audit (SAS 115) letter and the management response thereto
- A copy of the management representation letter
- A copy of the signed audit committee meeting minutes recommending that the audited financial statements be presented to the executive board for approval including acknowledgement of any BSA deficiencies noted in the prior year audit and steps taken to correct them in the current year

In addition, the following must be submitted to the national office when filed. The due date is May 15, but an automatic three-month extension to file may be obtained by filing Form 8868 by May 15.

- A copy of IRS Form 990 or 990-EZ and, if filed, IRS Form 990-T for the council
- A copy of IRS Form 990 or 990-EZ for council trust fund, if applicable

In an effort to reduce costs and the effect on our environment, all of the above documents may be emailed in portable document format (.pdf) to audits.990@scouting.org. Copies of the annual audited financial statements and supporting documentation should be maintained at the local council service center in case volunteers or other interested parties wish to review them.

Chapter 3
The Audit Committee

The audit committee represents an important resource for the executive board in fulfilling fiduciary responsibilities for the finances of the local council. The audit committee is an independent advisory group to the board**. As part of its National Strategic Plan, the BSA required all local councils to adopt, no later than December 31, 2011, an audit committee charter that is in compliance with guidelines outlined in the *AICPA Audit Committee Charter Matrix***. See Appendix A for sample language that may be used by a council in developing an audit committee charter. While the plan has flexibility and may be designed to meet local council needs, the role of the audit committee is clear and should not be compromised.

3.1 Purpose

One proactive response in the area of accountability is the audit committee. It is being used successfully by publicly held commercial organizations as well as not-for-profit agencies. Its purpose is to assist the executive board in fulfilling the responsibilities related to accounting and financial reporting practices. To effectively fill this role, the council president must appoint the audit committee as a separate committee that reports to the executive board under his direction.

The audit committee is not intended to be the "auditor" of the local council. The audit committee is primarily interested in compliance with the local council's policies and procedures, compliance with legal and regulatory requirements, and the presentation of accurate and meaningful financial statements in accordance with generally accepted accounting principles and the standards set forth by the Boy Scouts of America.

3.2 Composition

The audit committee is generally composed of three to five independent, financially literate individuals, but does not include local council officers or professional staff members, who may attend meetings but may not vote. Ideally, members have in-depth business knowledge, familiarity with accounting practices and concepts, and an interest in helping the council fulfill its fiduciary responsibilities. A majority of the audit committee should be members of the local council executive board. Other members should be local community leaders who believe in the benefits derived from an audit committee's work. Parents of current Scouts, service club members, Eagle Scouts, and members of the local chapter of the state institute of CPAs or the National Association of Accountants are potential audit committee members. No employee of the council's external auditors should serve on the committee. Audit committee best practice, although not a BSA requirement, is that at least one audit committee member meet the U.S. Securities and Exchange Commission requirements to be designated as an Audit Committee Financial Expert (as that term is defined by the SEC and summarized below under "Financial Expertise").

3.3 Organization

The committee is appointed by and reports to the council board. The Scout executive or assigned staff member may sit as secretary of the committee, but is not a voting member. The chairperson shall be selected from among those members of the audit committee who are also members of the council executive board. The chairperson should be a respected member of the local council executive board, one who has served long enough to provide stability to the committee's activities and has a proven interest in the fiscal management of the council. The chairperson must work closely with the Scout executive or assigned council

management representative in fulfilling the committee's responsibilities. See Appendix M for a sample audit committee chairperson job description.

3.4 Financial Expertise

The audit committee should have access to financial expertise, whether in the form of a single individual serving on the committee, who should also be a member of the board of directors, or collectively among committee members.

The following attributes are all deemed to be essential components of financial expertise:

- An understanding of generally accepted accounting principles, generally accepted auditing standards, and financial statements
- The ability to assess the general application of such principles and standards in connection with the accounting for estimates, accruals, and reserves
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the organization's financial statements, or experience actively supervising (that is, direct involvement with) one or more persons engaged in such activities
- An understanding of internal control and procedures for financial reporting
- An understanding of audit committee functions
- A general understanding of not-for-profit financial issues and specific knowledge of the standards set forth by the Boy Scouts of America

The following questions should be used to assess whether an individual audit committee member, or the committee as a whole, possesses the previously stated attributes:

- Does the individual or the committee as a whole comply with the state's requirements of audit committees regarding independence, expertise, membership, and shared responsibilities with the finance committee, and so on?
- Have one or more individuals completed a program of learning in accounting or auditing?
- Do one or more individuals have experience as a chief or principal financial officer (for example, finance director or business manager), principal accounting officer, controller, public accountant, or auditor?
- Do one or more individuals have experience in position(s) that involve the performance of similar functions?
- Have one or more individuals gained experience by actively supervising a person(s) performing one or more of these functions?
- Do one or more individuals have experience overseeing or assessing the performance of companies, not-for-profit organizations, or public accountants with respect to the preparation, auditing, or evaluation of financial statements? Do one or more individuals have other relevant financial

experience (for example, service on boards of banking or investment institutions or experience as a banker or investment adviser)?

- Do one or more individuals have experience serving on audit committees of other not-for-profit organizations?

3.5 Alternative Approaches

If no individual member of the audit committee possesses the attributes required for financial expertise and the committee members collectively do not possess such attributes, several of the following options might be considered:

- If potential volunteers with financial expertise have limited time to commit to an organization, it may be beneficial, if bylaws allow it, to open up membership of the audit committee to persons who are not also members of the board of directors or trustees.

- Establish a relationship with a peer or an otherwise comparable organization to have the CFO for one organization provide financial expertise to the other. Such arrangements can be reciprocal or involve multiple organizations.

- Establish a relationship with a financial professional who is engaged and compensated to provide financial expertise as a consultant to the audit committee. Such an individual must otherwise be independent with respect to the organization (that is, must have no other financial arrangements with the organization).

- Pursue a training program for audit committee members to develop the financial expertise. Such training can include participation in professional development programs offered by the AICPA, associations serving the not-for-profit industry, or the conduct of in-house training programs.

- Refer to Appendix B for resources available to the audit committee.

3.6 Responsibilities

The responsibilities of the audit committee include the following:

- Meet as needed to address matters on its agenda, but not less frequently than twice each year. See Appendix C for a recommended audit committee meeting schedule and timetable for audit work. Of course, additional meetings should be held to address matters such as possible conflict-of-interest situations and to monitor compliance with the council's code of conduct.

- Recommend to the board the appointment of the independent auditor to complete the annual audit of the financial statements of the BSA local council as required by the Standard Local Council Articles of Incorporation and Bylaws. See Appendix D for a sample letter from an audit committee member to request a proposal from an independent auditor.

- Have a planning meeting with the independent auditor and management to review the independent auditor's proposed audit scope and approach and approve the auditor's engagement letter. See Appendix E for representative questions to be used by the audit committee when reviewing the audit scope and approach. In addition, Appendix F includes a sample letter of engagement from the independent auditor. Appendix G lists some key items to look for in an

engagement letter.

- ☐ Review the independent auditor's fee arrangements.
- ☐ Have a post-audit meeting to review the draft copy of the financial statements and independent auditor's report and recommendations on internal control, operating procedures, and suggestions for improvements as outlined in the management letter. Review any BSA deficiencies noted in your prior year's audited financial statements and steps taken in the current year to correct them.
- ☐ See Appendix H for representative questions for reviewing the draft copy of the annual financial statements. Also, see Appendix I for a discussion of the management letter and representation letter.
- ☐ Review compliance of the audit with the BSA standards on accounting and adequacy of management's policies and procedures on accounting and make recommendations.
- ☐ Review the adequacy of disclosure of information with management.
- ☐ Present the audited financial statements and audit findings to the board following review with the independent auditor.
- ☐ Periodically review the council's system of internal control. See Appendix J for a discussion of how the audit committee can assist a council in strengthening their internal control system.
- ☐ Review the independent auditor's performance using the checklist in Appendix K.

3.7 New Audit Committee Member Orientation

Understanding a local council of the Boy Scouts of America—its operations, strategies, risks, culture, and management team—as well as the specific responsibilities that go with audit committee membership, can be a daunting task. That's why a solid orientation process—including essential briefing materials, discussions with key people, and a plan for getting up to speed—can greatly accelerate a new audit committee member's integration and contribution to the board's work. To learn more about the "onboarding" process for new local council audit committee members, join hosts Ken Moran, CPA, CGMA, and Coleman Ross, CPA, CMA, CIA, in this recorded webinar by clicking here. Because the presentation has been recorded, you can access it whenever it is convenient for you.

Chapter 4
The Auditor

4.1 Qualifications

The audit examination should be conducted by an accountant who is both qualified and independent. Regardless of their qualifications, under the AICPA rules, members of the executive board are not considered independent, and may not perform the audit even though they may be willing to do so free of charge.

As to qualifications, certified public accountants must meet certain educational requirements and pass an exam. Depending on the state, they may also have to meet experience requirements before being certified to perform audits. The requirements to become a public accountant (but not certified) differ from state to state and are generally less demanding.

In choosing an auditor, the council should carefully consider the professional reputation of the prospective auditor, regardless of whether or not a certified public accountant is being considered, along with the council's particular requirements. Your state's board of accountancy will be able to tell you if a prospective auditor or audit firm is properly licensed and in good standing.

It is recommended that the council solicit bids for the audit every three to five years or change partners in the current firm every five years.

4.2 Overall Objectives

The overall objectives of the auditor, in conducting an audit of financial statements, are to

a. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework (e.g., generally accepted accounting principles); and

b. report on the financial statements, and communicate as required by generally accepted auditing standards, in accordance with the auditor's findings.

In all cases, when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, generally accepted auditing standards require that the auditor disclaim an opinion or withdraw from the engagement, when withdrawal is possible under applicable law or regulation.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

4.3 Clarified Auditing Standards

In order to make generally accepted auditing standards for nonpublic companies easier to understand and apply, the AICPA's Auditing Standards Board launched its Clarity Project in 2004. Starting with Statement on Auditing Standards (SAS) No. 117 and continuing through SAS No. 127 (clarified and currently effective for local council audits), generally accepted auditing standards (GAAS) now more clearly state the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with U.S. GAAS. The Clarity Project will result in the first complete redrafting and recodification of U.S. GAAS since 1972. In addition to reformatting and reorganizing existing U.S. audit standards, the Clarity Project will integrate them with the International Standards on Auditing. When completed in 2014, clarified auditing standards will be issued as one SAS that will replace all prior SASs.

The clarified standards introduced many changes to GAAS including terminology used and the form and content of the auditor's report (see Appendix L for sample reports).

Chapter 5
The Auditor's Report

5.1 New Report Format

As discussed in the previous chapter, the auditor's report has changed under the new, clarified auditing standards and is in effect for local council 2012 audits. The new report format includes the following changes:

- The introductory paragraph has been shortened to exclude a statement of management's responsibility for the financial statements and the auditor's responsibility under generally accepted auditing standards in the U.S. It is possible that this paragraph would include a subtitle, *Report on the Financial Statements*, if the report also contains a paragraph subtitled *Report on Other Legal and Regulatory Requirements*, discussed below.

- Two new paragraphs have been added, each with its own heading: *Management's Responsibility for the Financial Statements* and *Auditor's Responsibility*, describing management's responsibility for the financial statements and the auditor's responsibility under generally accepted auditing standards in the U.S., respectively. The scope of the auditor's work is also described in the *Auditor's Responsibility* paragraph.

- The scope paragraph describing the auditor's work has been eliminated (see previous bullet point).

- The auditor's opinion paragraph now has a heading, *Opinion*.

- If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under generally accepted auditing standards to report on the financial statements, these other reporting responsibilities should be addressed in a paragraph following the *Opinion* paragraph and subtitled *Report on Other Legal and Regulatory Requirements* or otherwise, as appropriate to the content of the section.

5.2 Opinion Types

The various types of opinions that an auditor might form as a result of the audit are discussed below (updated to reflect the new, clarified auditing standards):

5.2.1 Unmodified opinion

This opinion, formerly known as an "unqualified" opinion, declares that the financial statements are fairly stated in accordance with generally accepted accounting principles. This is obviously the most desirable opinion as it unequivocally supports the reliability of the financial statements. See sample unqualified opinion in Appendix L.

5.2.2 Modified opinions

There are three types of modified opinions: namely, a *qualified* opinion, an *adverse* opinion, and a *disclaimer* of opinion. The decision regarding which type of modified opinion is appropriate depends upon the following:

a. The nature of the matter giving rise to the modification (that is, whether the financial statements are

materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated)

b. The auditor's professional judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements

Qualified opinion—The auditor should express a qualified opinion when:

a. the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or

b. the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse opinion— The auditor should express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of opinion— The auditor should disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

For modified opinions, the AICPA defines the term “pervasive” as follows:

Pervasive. A term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that in the auditor's professional judgment

- are not confined to specific elements, accounts, or items of the financial statements;
- if so confined, represent or could represent a substantial proportion of the financial statements; or
- with regard to disclosures, are fundamental to users' understanding of the financial statements.

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Please see Appendix L for sample auditor’s reports.

Appendix A: Sample Local Council Audit Committee Charter

(From the AICPA Audit Committee Toolkit, Not-for-Profit Organizations, 2nd Edition)

Purpose

The audit committee oversees proper external review of the council's audited financial statements, as well as the council's risk management to include monitoring the internal control environment. Each member shall be free of any relationship that, in the opinion of the board, would interfere with his or her individual exercise of independent judgment.

Reporting

The audit committee reports directly to the council's board of directors (board).

Responsibilities

Specifically, the audit committee performs the following functions

- Develops and periodically reviews audit-related policies; has a regular process of determining whether it is receiving quality audit services for a fair price based on established policies and regulations;
- Meets with the audit firm to review the audited financial statements;
- Addresses any issues identified in the required communications and management letter;
- Solicits from the audit firm observations on staff skills, qualifications, and performance related to those audited functions;
- Reviews the performance of the auditors, ensuring continued independence;
- Reviews the audit plans for the coming year and discusses them with the external audit firm and internal auditor(s);
- Reviews with management, internal audit, and the external auditor the internal control process and risk management and mitigation process;
- Reports and recommends the results of audit findings to the board for approval;
- Acts as an external point of contact for any whistle-blowing issues, and, if necessary, initiates special investigations of policies, procedures, and practices;
- Reviews the IRS Form 990 annually, prior to submission;
- Reviews the IRS Form 990 for the council trust annually, if applicable, prior to submission;
- Reviews the presentation of the financial information in the annual report before it is printed;
- Conducts private executive sessions at least annually with the external auditors, person conducting the internal audit function, and management;
- Reviews the committee's charter annually, reassesses compliance with the provisions of the charter, and recommends any proposed changes to the board of directors;
- Reviews annually the council's document retention policy; and
- Reviews its own effectiveness annually.

Composition

- The committee consists of three to five persons, a majority of whom must be board members.
- The committee must include members with basic expertise in financial management; the committee may wish to consult with an independent financial expert on special topics.

- The council's Scout executive and chief financial officer do not serve on the audit committee because they are not independent.

Terms

- The members of this committee are selected by the board chair in consultation with the president and Scout executive and the audit committee chair, and are approved by the board.
- All committee members, excluding the person serving as chair, may serve two three-year terms.

Meetings

The audit committee meets as needed to fulfill its responsibilities, but will meet at least twice annually: once to review the audit plan and once to review the audited financial statements, the IRS Form 990 and related documents and the IRS Form 990 for the council trust, if applicable, and approve the audit engagement and special investigations related to fraud, financial irregularities, and internal control failures.

Approved by the council's board of directors _____on _____

Appendix B: Other Resources Available to the Audit Committee

From the National Council:

- Local Council Accounting Manual
- Local Council Administrative Review
- Local Council Guide to the Audit
- BSA Audit Toolkit
- Standard Local Council Articles of Incorporation and Bylaws
- Fiscal Management Procedures for Stewardship
- BSA Fiscal Documents Library

From the American Institute of Certified Public Accountants:

- Audit Committee Toolkit, Not-for-Profit Organizations
- Audit & Accounting Guide, Not-for-Profit Entities
- AICPA Professional Standards
- Not-for-Profit Entities—Accounting Trends &Techniques
- http://www.aicpa.org

Appendix C: Recommended Audit Committee Meeting Schedule and Timetable for Audit Work

By October 1

Audit committee confirms engagement of auditor.

NOTE: If engaging a new auditor, the committee may want to begin meeting as early as July.

Audit committee meets with auditor and council management to:

- Confirm the scope of the audit.
- Review and approve estimated fees.
- Review the Local Council Guide to the Audit.
- Address significant planned changes in the council's accounting principles, policies, and practices.
- Address recent developments in accounting principles or reporting practices that might affect the council.

October–December

Auditor performs interim fieldwork to include testing of inventory, confirmation of significant receivables, etc.

As soon after year-end as is possible

Council provides year-end trial balance to auditor.

Council prepares confirmation requests.

Auditor performs year-end fieldwork to include testing of inventory.

Council completes account analysis work papers and pulls documentation for auditor.

By May 1

Auditor delivers draft of audited financial statements and management letter.

Audit committee receives copies of the materials prior to the meeting and meets with management and auditor to review the drafts. Council management will participate in the review and may then be excused while the audit committee meets with the independent auditor. If no changes are made to the draft, the final audited financial statements and report could be approved at this meeting. The audit committee members should vote to accept the audit and recommend presentation to the executive board for approval. The committee determines how the audit will be presented to the board. Minutes of the meeting should be recorded and approved, signed by

the audit committee chairperson and Scout executive and include:

- Attendance—people present and absent
- Actions taken

By June 1 Auditor delivers bound copies of the audit to the council.
Council submits audit and supporting documentation electronically to the national office.

Appendix D: Sample Letter of Request for Proposal

Date

Audit Firm Name
Address
City, State, ZIP

Dear Mr. _____:

Scope

It is the intent of the board of directors of the [name] Council, Boy Scouts of America, that there be conducted a comprehensive audit of the financial condition of the council. This audit is to be conducted by an independent certified public accountant. The audit should be performed in accordance with auditing standards generally accepted in the United States as defined by the American Institute of Certified Public Accountants (AICPA), and should include tests of the accounting records and other auditing procedures as deemed necessary by that accountant in order to ensure certification of the financial statements.

It is expected that a report will be submitted on the audit of the financial statements, certifying the fair representation of those statements. These reports should be submitted in sufficient detail as requested by the treasurer of the council or a designee. The final report should be delivered prior to [date—recommend May 1 or sooner] and be prepared in the format specified by the National Council, Boy Scouts of America.

Management Letter

The accountant should submit a management letter of suggestions for improvements in internal controls and accounting procedures to the president of the council. The certified public accountant should be available to discuss the contents of this letter at any time with the president, the treasurer, audit committee members, or finance committee members at their request, or at the designated exit conference.

Request for Proposal

The _____Council, Boy Scouts of America, hereinafter referred to as “the Council,” is accepting proposals from CPA firms to provide audit, tax, and consulting services for the Council on a [one-,two-, or three-year cycle]. We invite your firm to submit a proposal to us by 5 p.m. [time zone] on [date] for consideration.

The proposals must be signed by an official authorized to bind the offerer, and shall contain a statement to the effect that the proposal is firm for a period of at least 90 days from the closing date for submission of proposals.

This solicitation does not commit the Council to award a contract, to pay any costs incurred in the preparation of a proposal, or to procure or contract for these services. The Council reserves the right to accept or reject any and all proposals received as a part of this request, to waive formalities, to negotiate with all qualified offerers, or to cancel in part or in its entirety this proposal, if it is in the best interest of the Council.

Services to Be Performed

Your proposal is expected to cover the following services:

1. Audit and preparation of standard financial statements for the Council.
2. Preparation of related IRS Form 990 or 990-EZ for the Council (including preparation of a separate Form 990 or 990-EZ for the Council's trust fund, if applicable).
3. Usual audit report on accounting practices, internal controls and compliance, and accompanying notes.
4. Consultation as needed to facilitate the audit process.
5. A management letter containing suggestions for improvements in internal controls and accounting procedures as required by the National Council, BSA.
6. Presentation of said audit to the Council's audit committee in draft form by [date—recommend no later than April 15] in any and all years under contract, to be followed by such discussion and consultation as is needed for the audit committee to approve the audit.
7. Preparation of adjusting entries, if any, to be submitted along with the draft audit report, in order to bring the Council's software statements into complete agreement with audited statements. Said adjustments will be provided utilizing the account numbers found in a working trial balance provided by the Council, with the addition of any needed accounts from the master listing of available BSA account numbers, also provided by the Council.
8. Presentation of final audit to the Council no later than [date—recommend May 15] in any and all years under contract.

Key Personnel

Following are key contacts for information you may seek in preparing your proposal:

Name	Name
Accounting specialist	Scout executive
Full address Work phone	Full address Work phone
Email	Email

Name

Audit committee chairperson

Full address
Work phone

Email

Other Pertinent Information

1. The Council will assist as follows:

    - Provide adequate space to efficiently conduct audits, with normally required electrical outlets, tables, and chairs.

    - Provide a copy of the most current version of Local Council Guide to the Audit that describes report formatting, pertinent information required for writing the notes section, and local council accounting policies.

    - Provide the prior year's Local Council Audit Review Record for use in ensuring the audit is judged "Compliant" by the National Council, BSA.

    - Prepare reports and schedules, and reproduce and provide documents as needed.

    - Provide copies of prior reports and management letters upon request. (These were prepared by [name of previous firm], who performed the most recent services for the fiscal year ending December 31, 20XX.)

2. If a part of the work covered by this request for proposal is to be subcontracted, the contractor

   shall identify the subcontracting organization and the contractual arrangements made with same. All subcontractors must be approved, in writing, by the Council.

3. All audited reports must be formatted to match the Council's same type report for ease of use and understanding by the Council's executive board members.

4. All applicable services should be performed in accordance with applicable FASB rulings, generally accepted accounting principles as adopted by the American Institute of Certified Public Accountants, BSA policy, and any other applicable requirements and standards that apply.

5. Submission of all audit-reporting packages required by any federal agencies or state entities will be the responsibility of the auditing firm.

6. [Number of] copies of the auditor's report, management letter, and internal control and compliance reports will be provided to the Council.

7. If additional work should have to be performed by the auditors due to initial work not meeting the auditing standards, such work will be done at no additional charge to the Council.

8. Subject to the provisions below, the contract may be terminated by the Scout executive of the Council.

    a. Termination for Convenience: The Council may, without cause, terminate this contract in whole or in part at any time for its convenience with a ten (10) day written notice to the

contractor. In such instance, an adjustment shall be made to the contractor, for reasonable costs of the work performed through the date of termination. Termination costs do not include lost profits, consequential damages, or unabsorbed or absorbed overhead for the contractor or its subcontractors. The contractor expressly waives any damages or indirect costs which may arise from the Council's election to terminate this contract in whole or in part for its convenience.

b. Termination for Cause: Termination by the Council for cause, default, or negligence on the part of the contractor shall be excluded from the foregoing provisions. Termination costs, if any, shall not apply. The ten (10) day advance notice requirement is waived, and the default provision in this proposal shall apply.

9. The Council's accounting software has the ability to export the trial balance in electronic form. Depending on the accountant's software, it may be possible to import the trial balance into your software.

Your Response to the Request for Proposal

In responding to this request, please provide the following information formatted in the order listed:

1. Detail your firm's experience in providing auditing and tax services to companies in the not-for-profit field, as well as companies of a comparable size.

2. Identify the partner, manager, and in-charge accountant who will be assigned to our job if you are successful in your bid. Provide biographies, indicating any complaints against them that have been leveled by the state board of accountancy or other regulatory authority, if any. Indicate corrective actions that have been taken by the firm with respect to these people.

3. Describe how your firm will approach the audit of the Council, including the use of any association or affiliate member firm personnel.

4. Furnish standard billing rates for classes of professional personnel.

5. Set forth your fee proposal separately for each service, with whatever guarantees can be given regarding increases in future years.

6. Provide reference names and contact information for other not-for-profit, similarly sized clients of the partner and manager that will be assigned to the Council.

7. Describe how and why you are the best firm to be awarded the contract.

8. Include a copy of your firm's most recent peer review report, the related letter of comments, and the firm's response to the letter of comments.

Innovative proposals are encouraged; however, if your proposal includes any comment over and above the specific information requested above, you are to include this information as a separate appendix.

Evaluation of Proposals

The Council will evaluate proposals on a qualitative basis. This includes our review of the firm's peer review reports and related materials, interviews with senior engagement personnel to be assigned to the Council, results of discussions with other clients, and the firm's completeness and timeliness in its response to us. Any offerer or all offerers may be requested to make an oral presentation of this proposal to the Council's selection/review committee.

As previously mentioned, if you choose to respond to this request, please do so by 5 p.m. [time zone] on [date]. Thank you.

Sincerely,

[Name]

Chairperson of the Audit Committee

cc: Scout executive

Enclosures: Local Council Guide to the Audit; Local Council Audit Review Record

Appendix E: Representative Questions About Audit Scope and Approach

The following are questions the audit committee should ask a prospective auditor before engaging the auditor's services:

- Which areas do you plan to emphasize in your examination? Why?
- To what extent will you review the council's internal control system?
- How will this year's financial statements be affected by recent changes in accounting principles?
- How will your audit address the council's accounting system?
- To what extent can the planned audit scope be relied on to detect material errors, irregularities, and illegal acts?
- Does your audit include a review of management employees' expense accounts?
- On what date do you anticipate completion of the audit?

Appendix F: Sample Letter of Engagement From an Independent Auditor

This document was updated as a part of the new, clarified auditing standards (AU-C section 210) and is effective for audits of financial statements for periods ending on or after December 15, 2012.

(Written by the independent auditor to accept the engagement)

[Date]

Audit Committee

[Council]

Dear [name]

To the appropriate representative of those charged with governance of Local Council Inc.:

[*The objective and scope of the audit*]
You have requested that we audit the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

[*The responsibilities of the auditor*]
We will conduct our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with generally accepted auditing standards. In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

[*The responsibilities of management and identification of the applicable financial reporting framework*]
Our audit will be conducted on the basis that those charged with governance acknowledge and understand that they have responsibility

a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;

b. for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

c. to provide us with

i. access to all information of which [*management*] is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;

ii. additional information that we may request from [*management*] for the purpose of the audit; and

iii. unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [*management and, when appropriate, those charged with governance*] written confirmation concerning representations made to us in connection with the audit.

[*Other relevant information*]
[O*ther information inserted here, such as fee arrangements, billings, and other specific terms, as appropriate*.]

[Reporting]
We will issue a written report upon completion of our audit of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. We also will issue a written report on [*Appropriate reference to other auditor's reports expected to be issued inserted here.*] upon completion of our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of Local Council Inc. by

_____
[*Signed*]
[*Name and Title*]
[*Date*]

Appendix G: Key Items to Look for in an Engagement Letter

The engagement letter serves as the annual contract for service between the auditor and council. It is written by the auditor to the council accepting the engagement to do the council's audit and outlining the terms of that engagement. It includes the responsibilities, costs, and timetable for that year's audit. The letter should be reviewed by the council audit committee before it is signed by the Scout executive. Below are some key items to look for in the engagement letter before signing it:

- ☐ Terms and objectives of the engagement
- ☐ Nature and scope of the services provided
- ☐ Nonattest services
- ☐ Timetable for the audit work
- ☐ Audit of financial statements for the year ended December 31, 20XX
- ☐ Use of generally accepted accounting principles
- ☐ Auditor's privacy policy and third-party reliance on the audit report
- ☐ Terms of resolution in the event of a dispute
- ☐ Auditor's response to conflict of interest
- ☐ Severability clause
- ☐ Written acceptance by the council
- ☐ Assistance and environment expected to be provided by the council
- ☐ Use of email communications
- ☐ Auditor's record retention policy
- ☐ Preparation of IRS Form 990 or 990-EZ
- ☐ Preparation of IRS Form 990 for council trust, if applicable
- ☐ Review of the council's control structure with notification through written SAS 115/management letter
- ☐ Communication to those charged with governance through written SAS 114 letter
- ☐ Pre-audit meeting to discuss audit scope and risk, and procedures that will be performed

- Post-audit meeting to review financial statements and management letter, including:
    - The initial selection of and changes in significant accounting policies and their application
    - The process used by council management in formulating particularly sensitive accounting estimates and the basis for the auditor's conclusions regarding the reasonableness of those estimates
    - Audit adjustments that could, in the auditor's judgment, either individually or in the aggregate, have a significant effect on the council's financial reporting process
    - Any disagreements with council management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements
    - The auditor's views about matters that were the subject of council management's consultation with other accountants about auditing and accounting matters
    - Major issues that were discussed with council management in connection with the retention of the auditor's services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards
    - Serious difficulties that the auditor encountered in dealing with council management related to the performance of the audit
    - Handling of adjustments below materiality threshold
    - Request for the council to provide representation letter
    - Audit cost(s) and how extra services or costs will be determined and billing rate
    - Number of bound copies of audit to be provided

Appendix H: Representative Questions for Reviewing the Draft Copy of Annual Financial Statements

The audit committee should consider these questions when reviewing the **draft** copy of the financial statements.

- How does the council invest excess funds, and what is its investment philosophy regarding yield and risk?
- Has the council invested in any “exotic” types of financial instruments?
- How does the average age of accounts receivable at year-end compare with the preceding year?
- How is the allowance for doubtful accounts determined? Is the collectibility of any large individual amount in question?
- Are any significant or unusual amounts due from officers or employees?
- Are inventory controls adequate? What specific audit procedures were performed relating to inventories held at outside locations?
- What steps were taken to determine obsolete or excess stock? Were there any significant write-downs?
- Is the council aware of any provisions of government regulatory programs, such as those dealing with the environment, that could adversely affect the value at which inventories and land, building, and equipment are now recorded? If so, should these be disclosed?
- How did the council satisfy itself about the value of long-term investments?
- Did the council consider possible problems resulting from expropriation of restrictions of assets in foreign countries?
- Do any significantly unusual accounting accruals exist?
- What are the open tax years? Are there any unpaid tax issues? Are there any significant items that are or may be in dispute? Is the balance sheet provision for income taxes adequate to cover probable additional assessment?
- Were there any commitments or contingent liabilities indicating possible impairment of the value of an asset or the incurrence of a liability that were not provided for in the financial statements?
- Were any significant issues raised by management, in-house counsel, or outside legal counsel concerning litigation, contingencies, claims, or assessments? How are such matters reflected in the financial statements?
- Is the council in danger of not complying with provisions of loan agreements, long-term debt, and equity issues?
- Were any unusual transactions completed during the year that were not evident from the financial statements? How were these transactions accounted for? Did any of these transactions involve related parties?
- Were any significant adjustments to the financial statements made as a result of the audit?

- Were there any unrecorded adjustments?
- Were there any prior-period adjustments? If so, what were the circumstances?
- Were there significant variances between years? What caused these variances?
- Were any significant reporting issues discussed? How were these resolved?
- Does the audit tie out to the council's financial statements? Do total net assets by fund and restriction per the council's financial statements agree with the audit?
- Are interfund loans recorded in the asset section of the financial statements only? Do they net to zero?
- Are financial statements presented in three-fund format with a prior-year comparison? (Samples of the four required statements and formats can be found in the *Local Council Guide to the 201X Audit*.)
- If required, have consolidated financial statements been prepared? Not-for-profit organizations may be related to one or more other not-for-profit organizations in several ways, including ownership, control, and economic interests. Interrelated not-for-profit organizations should present consolidated financial statements in their audit reports. Refer to FASB Accounting Standards Codification topic *Not-for-Profit Entities: Mergers and Acquisitions.*
- Has investment income from restricted funds been recorded using FASB/BSA standards?
- Has cost of goods sold been disclosed on the statement of activities and changes in net assets?
- Are current-year contributions and contributions receivable recorded in the financial statements at net realizable value (with no provision or allowance for uncollectible accounts presented)?
- Have product sale cost of goods sold and commissions paid (or earned and retained) been disclosed on the statement of activities and changes in net assets?
-
- Has special events direct cost of benefits been disclosed on the statement of activities and changes in net assets?
- Are the following footnote disclosures included? (Samples of the following Notes to the Financial Statements can also be found in the *Local Council Guide to the 201X Audit*.)

  Notes on Operations
  Inventory Valuation
  Temporarily Restricted Contributions Reported as Unrestricted if Restriction Met in Same Year
  Fair Value Measure (FASB ASC 820-10-35-18)
  Uncertainty in Income Taxes (FASB ASC 740-10-25)
  Donated Services
  Investment
  Federal Income Tax Status with Respect to Unrelated Business Income
  Spending Policy
  Retirement Plan
  Endowments/UPMIFA (FASB ASC 958-205)

The audit committee should consider these questions when reviewing accounting policies:

- What effect would any new or proposed changes in generally accepted accounting principles have on the financial statements?
- Did accounting practices change significantly this year? What was the effect of the change?
- Were there any disagreements between management and the auditors over accounting methods or principles? Were these satisfactorily resolved?
- How do the council's policies compare with those outlined in the Local Council Accounting Manual?
- Are there any non-operating properties? Why are they being retained? What do they consist of? Are these carried at appropriate values?

The audit committee should consider these questions when reviewing the conduct of the audit.

- Did the actual scope of the audit differ from pre-audit plans?
- Did management limit or restrict the scope of the audit in any way?
- Did management cooperate during the course of the audit, and was the auditor given appropriate access to management?

Appendix I: Required Communications

Generally accepted auditing standards require the auditor to communicate certain matters to those charged with governance and management of local councils. Copies of these communications are also required to be included in the documents submitted annually to the National Council, no later than June 1, with your council's audited financial statements. Examples of some of those communications follow.

The "SAS 114" Letter

Statement on Auditing Standards No. 114 ("SAS 114", clarified under AU-C section 260 of the AICPA Professional Standards), *The Auditor's Communication with Those Charged with Governance,* relates to communication with those individuals in the organization charged with governance. In local councils, this would be your audit committee and executive board of directors. SAS No. 114 includes requirements to communicate 1) an overview of the planned scope and timing of the audit*, and 2) representations the auditor is requesting from management. It also provides additional guidance on the communication process, including the forms and timing of communication. Significant findings from the audit should be in writing when, in the auditor's professional judgment, verbal communication would not be adequate. Other communication may be verbal** or in writing. SAS No. 114 requires the auditor to determine the appropriate person(s) in the entity's governance structure with whom to communicate particular matters. That person may vary depending on the nature of the matter to be communicated. It also requires the auditor to evaluate the adequacy of the two-way communication between the auditor and those charged with governance.

Other items to be communicated by the auditor include management's judgments and accounting estimates, audit adjustments, and uncorrected misstatements. The "SAS 114" letter will also communicate information regarding any new accounting policies adopted by the council, any disagreements with management, major issues discussed prior to the audit, and difficulties encountered during the audit. See page I-4 for a sample "SAS 114" letter.

*****The planned scope and timing of the audit are typically spelled out in the *engagement letter,* which is written communication between the auditor and local council management clearly stating the terms and conditions of the audit engagement (see Appendices F and G).

**If the auditor chooses to communicate verbally, ensure the communication is well-documented in the audit committee meeting minutes and provided to the National Council.

The "SAS 115" Letter

During the audit process, a review and evaluation of the system of internal controls is conducted as part of the normal audit examination. This includes controls over financial reporting, which are designed to provide reasonable assurance that the company's financial statements are reliable and prepared in accordance with generally accepted accounting principles. Statement on Auditing Standards No. 115 ("SAS 115", clarified in AU-C section 265 of the AICPA Professional Standards), *Communicating Internal Control Related Matters Identified in an Audit,* requires auditors to communicate to those charged with governance and management, deficiencies in internal control that the auditor has identified during a financial statement audit. If the auditor has identified one or more deficiencies in internal control, the auditor should evaluate each deficiency to

determine, on the basis of the audit work performed, whether, individually or in combination, they constitute **significant deficiencies** or **material weaknesses**.

Significant deficiency—A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Material weakness—A deficiency, or a combination of deficiencies, in internal control, that create a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

The auditor should communicate in writing to those charged with governance, (and management at an appropriate level of responsibility) within 60 days of the report date, *significant deficiencies* and *material weaknesses* identified during the audit, including those that were remediated during the audit. The auditor should also communicate in writing or orally, *other deficiencies* in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.

In particular, the communication should include the following elements:

1. The definition of the term *material weakness* and, when relevant, the definition of the term *significant deficiency*
2. A description of any significant deficiencies and material weaknesses identified and an explanation of their potential effects
3. A statement that the auditor performed the audit in order to express an opinion on the financial statements
4. A statement that the auditor considered internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but <u>not</u> for the purpose of expressing an opinion on the effectiveness of internal control
5. A statement that the auditor is not expressing an opinion on the effectiveness of internal control
6. An explanation that the auditor's consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified

It is important to note that if the auditor issues a written communication stating that <u>no material weaknesses were identified during the audit</u>, the communication should include items 1 and 3 through 6 above, and should include an alert, in a separate paragraph, that restricts its use when the subject matter of the auditor's written communication is based on matters identified by the auditor during the course of the audit engagement when the identification of such matters is not the primary objective of the audit engagement (commonly referred to as a by-product report).

The auditor should <u>not</u> issue a written communication stating that no significant deficiencies were identified during the audit.

<u>The Management Letter</u>

Prior to SAS No. 115 (and SAS No. 112, which it superseded) control deficiencies were typically communicated to management in a “management letter*”,* which was *not* a required communication under generally accepted auditing standards. The management letter also contained the auditor’s recommendations

to improve the effectiveness and efficiency of operations of local councils. Since the standards do not prohibit the auditor from communicating recommendations for improving certain facets of client operations, they are often incorporated into the “SAS 115” letter. The BSA will accept a combination “SAS 115”/management letter with your council’s annual filing with the national office. See page I-6 for a sample “SAS 115” letter.

The Management Representation Letter

During an audit, management makes many representations to the auditor, both oral and written, in response to specific inquiries or through the financial statements. Such representations from management are part of the audit evidence the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit. Written representations from management ordinarily confirm representations explicitly or implicitly given to the auditor, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations.

Examples of representations made my management include:

- Management’s belief that its financial statements are fairly presented in conformity with generally accepted accounting principles
- Management's acknowledgment of its responsibility for the design and implementation of programs and controls to prevent and detect fraud
- Information concerning related-party transactions and amounts receivable from or payable to related parties
- Satisfactory title to assets, liens or encumbrances on assets, and assets pledged as collateral

The letter is usually signed by the Scout executive and accounting specialist, and it also may be signed by the council treasurer. A copy of the representation letter must be forwarded with the local council audited financial statements to the national office by June 1. See page I-7 for a sample management representation letter.

SAMPLE SAS 114 LETTER

May 19, 2013

Members of the Audit Committee
Nation's Best Council Inc.
Boy Scouts of America
123 Main Street
Anytown, USA 12345

Dear Committee Members:

We have audited the financial statements of the Nation's Best Council, Boy Scouts of America ("the Council"), for the year ended December 31, 2012, and have issued our report thereon dated May 19, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 12, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated November 12, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Council are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2012. We noted no transactions entered into by the Council during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Accumulated depreciation on property and equipment in the Capital Fund was corrected.

2. The amount of the transfer between the Endowment Fund and the Operating Fund was corrected.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 19, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Council's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Council's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the use of the board of directors and management of Nation's Best Council Inc., Boy Scouts of America, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Nation's Best Auditors
Certified Public Accountants

[Note: A schedule of audit adjustments and uncorrected misstatements should accompany this document.]

SAMPLE SAS 115 LETTER

May 19, 2013

To the Board of Directors
Nation's Best Council, Inc.
Boy Scouts of America

In planning and performing our audit of the financial statements of Nation's Best Council Inc., Boy Scouts of America, as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States, we considered the internal control of Nation's Best Council Inc., Boy Scouts of America, over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Council's financial statements that is more than inconsequential will not be prevented or detected by the Council's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Council's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we identified the following deficiency in internal controls that we consider to be a significant deficiency:

Investments: Management is not reconciling investments on a periodic basis. Investment income and the fair market value of investments are not correctly stated in the monthly financial statements. Management should reconcile and adjust the investment accounts and related income no less than quarterly.

This communication is intended solely for the information and use of management, board of directors, and others within the Council, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Nation's Best Auditors CPAs LLC

SAMPLE MANAGEMENT REPRESENTATION LETTER

Type on Council Letterhead

Date

Auditing Firm
Address
City, State, Zip

We are providing this letter in connection with your audit of the Statement of Financial Position of the _____ Council, Boy Scouts of America, as of December 31, 20XX, and the related statements of changes in net assets, functional expenses, and cash flows for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, functional expenses, and cash flows of the _____ Council, Boy Scouts of America, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, functional expense, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that in light of surrounding circumstances makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small could be considered material as a result of qualitative factors.

We confirm to the best of our knowledge and belief, as of _____, the following representation made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the organization's control.
2. We have made available to you all:
    a. Financial records and related data
    b. Minutes of the meetings of the audit committee, executive board, and executive committee or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There has been no communication from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. We believe the effects of the financial misstatements summarized in the attached schedule are immaterial, both individually and in aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the organization involving:

   a. Management
   b. Employees who have significant roles in internal control
   c. Others where the fraud could have a material effect on the financial statements
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization received in communications from employees, former employees, grantors, regulators, or others.
9. The organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
   a. Related-party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
   b. Guarantees, whether written or oral, under which the organization is contingently liable.
   c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
13. _____Council, Boy Scouts of America, is an exempt organization under section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with authorities are up to date.
14. Except as disclosed in the financial statements, there are no:
   a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.
   b. Pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with FASB ASC 450-20-60 (or which would affect federal award programs); we have not consulted a lawyer concerning litigation, claims, or assessments.
   c. Other liabilities, or gains or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
   d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
15. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged.

16. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
17. The organization deems the assets recorded that are due to prior agreements with existing trusts are fully collectible and have not allowed for this amount as of year-end.

_____ _____

Scout executive Accounting specialist

Appendix J: The Audit Committee and Internal Control

Internal control is an important tool for the audit committee. Because the auditor is not assured of finding irregularities, a good system of internal control, properly used, is the council's best defense against such problems. Internal controls afford volunteers, executive board members, and Scout executives greater assurance that resources are used exclusively for intended purposes—key to maintaining public trust and goodwill.

Local councils may, however, encounter special problems in employing systems of internal control. Local councils are often small, reducing the likelihood of achieving control through traditional techniques. Additionally, the nature of many not-for-profit transactions often precludes certain desirable checks and balances. Internal controls in local councils, in any event, can be achieved within the constraints of current levels of staffing.

Local councils and the environment in which they operate are dynamic. Internal control systems must change in response to this relationship. Controls that are effective today may become inadequate, redundant, or cost-inefficient in the future. New controls may become necessary.

A periodic review and testing of internal controls is essential. Questions that will facilitate the audit committee's review of internal controls include the following:

1. Have changes occurred in the council that may require new controls?

2. Were "surprises" encountered that could have been anticipated with better controls?

3. Have explanations of variations from budget been confusing or contradictory?

4. Have the management, accounting, or financial functions been overextended, increasing the possibility of error or untimely processing of transactions?

The audit committee can help the council strengthen internal controls by encouraging the use of:

1. Resource information on internal controls found throughout the Local Council Accounting Manual, Fiscal Management Procedures for Stewardship, and the Local Council Administrative Review.

2. A procedures manual which includes segregation of duties, clearly defines internal controls and responsibilities, and clearly communicates the operating policies and accounting procedures for executing transactions. These policies and procedures should be readily accessible to the appropriate people and should serve as the primary reference source for resolving operating and accounting questions.

3. Responsibilities assigned to personnel in such a manner that no one individual, including the Scout executive or any staff member, controls <u>all</u> aspects of processing a transaction. Segregation of duties is an important aspect of internal controls. It often is expensive to implement; therefore the expected costs and benefits should be carefully analyzed. Some councils do not have sufficient personnel to achieve a traditional segregation of duties. In such cases, the Scout executive and key board

members shall be actively involved in monitoring the course of activities and the flow of resources in and out of the council. Volunteers can be used to perform some duties.

4. Budgets which are an integral part of internal control. Budgets allow effective monitoring of the flow of resources in and out of an organization. The comparison of actual amounts to budgeted amounts often provides the first indication of operating problems or weaknesses in an internal control system.

5. Cooperation with the auditor, because he or she spends a portion of time reviewing and evaluating internal control systems, on the part of all staff members in all departments in answering questions as well as providing records. They should answer questions honestly and frankly, but without opinion and without attempts to be defensive.

Appendix K: Evaluating the External Auditors: Questions to Consider

The audit committee should have the responsibility to hire, terminate, and evaluate the external auditors. In discharging these responsibilities, the audit committee should consider a series of questions about its relationship with the external auditor and should ask key executives in the council for their comments as well. Any communications with the external auditors undertaken in the evaluation process should be conducted with tact and acknowledgment of the need to maintain the open flow of communication between the external auditors and the audit committee. The sample questions included in this tool are only a starting point to evaluate the performance and effectiveness of the external auditors. Audit committee members should ask follow-up questions as appropriate. Questions for Audit Committee Members:

1. Did the auditors meet with the audit committee when requested?

2. Did the auditor address issues of “tone at the top” and antifraud programs and controls in place in the organization?

3. Did the auditors inform the audit committee of any risks of which the committee was not previously aware?

4. Did the auditor adequately discuss issues of the quality of financial reporting, including the applicability of new and significant accounting principles?

5. Did the auditor communicate issues freely with the audit committee, or did he or she seem protective of management?

6. Is the audit committee satisfied with the planning and conduct of the audit, including the financial statements and internal control over financial reporting (as applicable)?

7. Is the audit committee satisfied that the external auditor remains independent and objective both in fact and appearance?

8. Consider whether there are indications that the firm, the office, or the partner is significantly dependent on the organization for its fee income.

9. Review whether former members of the audit team are now employed by the organization.

10. If any of these conditions exist, the audit committee should consider whether they impair the independence with respect to the organization.

11. Is the audit committee satisfied with its relationship with the auditors? In making this determination, the audit committee should consider (*a*) whether the partner in charge of the audit participated in audit committee meetings, (*b*) whether the auditors were frank and complete in the required discussions with the audit committee, (*c*) whether the auditors were frank and complete during executive (in camera) sessions with the audit committee, and (*d*) whether the auditors were on time in their delivery of services to the organization.

12. Was the audit fee fair and reasonable in relation to what the audit committee knows about fees charged to other councils, and in line with fee benchmarking data the audit committee might have available to it?

13. Did the external auditors provide constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the organization's internal control system over financial reporting?
14. Did the external auditors demonstrate an ongoing understanding of the nature of nonprofit organizations, especially Boy Scout councils?

Questions for the Council's Scout Executive/Highest-Level Finance Person:

1. From your perspective in working with the external auditors, are you satisfied with the scope, nature, extent, and timing of testing performed by the external auditors?
2. Are you satisfied with the knowledge, skills, and abilities of the staff assigned to the audit work?
3. Are you satisfied with the engagement leadership assigned, including the partner(s), manager(s), and fieldwork leaders?
4. Did the external auditors provide constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the council's internal control system over financial reporting?
5. If the choice were yours, would you hire the firm to conduct next year's audit?
6. If yes, what changes would you make, if any? If no, why would you not rehire the firm?
7. Are you satisfied with the quality and quantity of information provided by the external auditor relative to the general progress of the audit?
8. Were identified problems or potential issues brought to your attention in sufficient time to be addressed without delaying or extending the completion of the audit?

Questions for the Council's Highest-Level Accounting Person:

1. From your perspective in working with the external auditors, are you satisfied with the scope, nature, extent, and timing of testing performed by the external auditors?
2. Are you satisfied with the knowledge, skills, and abilities of the staff assigned to the audit work?
3. Are you satisfied with the engagement leadership assigned, including the partner(s), manager(s), and fieldwork leaders?
4. Did the external auditors provide constructive observations, implications, and recommendations in areas needing improvement, particularly with respect to the council's internal control system over financial reporting?
5. If the choice were yours, would you hire the firm to conduct next year's audit?
6. If yes, what changes would you make, if any? If no, why would you not rehire the firm?
7. Are you satisfied with the quality and quantity of information provided by the external auditor relative to the general progress of the audit?
8. Were identified problems or potential issues brought to your attention in sufficient time to be addressed without delaying or extending the completion of the audit?

Appendix L: Sample Independent Auditor's Reports

An auditor's report on consolidated comparative financial statements prepared in accordance with accounting principles generally accepted in the United States of America:

Independent Auditor's Report
[*Appropriate Addressee*]

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Local Council, which comprise the consolidated statements of financial position as of December 31, 20X1 and 20X0, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Local Council as of December 31, 20X1 and 20X0, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements
[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]
[*Auditor's signature*]
[*Auditor's city and state*]
[*Date of the auditor's report*]

An auditor's report containing a qualified opinion due to a material misstatement of the financial statements:

Independent Auditor's Report
[*Appropriate Addressee*]

Report on the Financial Statements
We have audited the accompanying financial statements of Local Council, which comprise the statements of financial position as of December 31, 20X1 and 20X0, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion
The Council has stated inventories at cost in the accompanying balance sheets. Accounting principles generally accepted in the United States of America require inventories to be stated at the lower of cost or market. If the Company stated inventories at the lower of cost or market, a write down of $XXX and $XXX would have been required as of December 31, 20X1 and 20X0, respectively. Accordingly, cost of sales would have been increased by $XXX and $XXX, and changes in unrestricted net assets would have been reduced by $XXX, $XXX, and $XXX, and $XXX, $XXX, and $XXX, as of and for the years ended December 31, 20X1 and 20X0, respectively.

Qualified Opinion
In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Local Council as of December 31, 20X1 and 20X0, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements
[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]
[*Auditor's signature*]
[*Auditor's city and state*]
[*Date of the auditor's report*]

An auditor's report containing an adverse opinion due to a material misstatement of the financial statements:

Independent Auditor's Report
[*Appropriate Addressee*]

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Local Council, which comprise the consolidated statement of financial position as of December 31, 20X1, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion
As described in Note X, the Council has not consolidated the financial statements of subsidiary Trust Fund that it created during 20X1 because it has not yet been able to ascertain the fair values of certain of the Trust Fund's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis by the Council. Under accounting principles generally accepted in the United States of America, the Trust Fund should have been consolidated because it is controlled by the Council. Had the Trust Fund been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

Adverse Opinion
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the consolidated financial statements referred to above do not present fairly the financial position of Local Council as of December 31, 20X1, or the results of their operations or their cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements
[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]
[*Auditor's signature*]
[*Auditor's city and state*]
[*Date of the auditor's report*]

An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements:

Report on the Financial Statements
We were engaged to audit the accompanying financial statements of Local Council, which comprise the statement of financial position as of December 31, 20X1, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion
We were not engaged as auditors of the Council until after December 31, 20X1, and, therefore, did not observe the counting of physical inventories at the beginning or end of the year. We were unable to satisfy ourselves by other auditing procedures concerning the inventory held at December 31, 20X1, which is stated in the statement of financial position at $XXX. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous misstatements in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the misstatements. We were unable to confirm or verify by alternative means accounts receivable included in the balance sheet at a total amount of $XXX at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statements of activities and changes in net assets, and cash flows.

Disclaimer of Opinion
Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Other Legal and Regulatory Requirements
[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]
[*Auditor's signature*]
[*Auditor's city and state*]
[*Date of the auditor's report*]

Appendix M: Audit Committee Chairperson Job Description

General

The chairperson of the audit committee (the "Committee") of the Board of Directors (the "Board") of _____ Council, Inc., (the "Council") is responsible for providing leadership to the Committee in fulfilling its duties and responsibilities under its charter. The chairperson shall be selected from among those members of the audit committee who are also members of the Council executive board, and should be a respected member of the Board, who has served long enough to provide stability to the Committee's activities and has a proven interest in the fiscal management of the Council. The chairperson must have a close working relationship with the Scout executive or assigned Council management representative and the external auditors in fulfilling the Committee's responsibilities. The nature of that relationship should be characterized by candor, the timely sharing of information and concerns, and the willingness to work together at the highest level of integrity, accountability, and honesty, in the best interests of the Council and its stakeholders.

Qualifications:

It is desirable for the chairperson to have financial expertise. But it is not required as long as another individual serving on the Committee or the Committee members collectively have financial expertise as evidenced by the following:

- An understanding of generally accepted accounting principles, generally accepted auditing standards, and financial statements
- The ability to assess the general application of such principles and standards
- Experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that can reasonably be expected to be raised by the organization's financial statements, or experience actively supervising (that is, direct involvement with) one or more persons engaged in such activities
- An understanding of internal control and procedures for financial reporting
- An understanding of audit committee functions
- A general understanding of not-for-profit financial issues and specific knowledge of the standards set forth by the Boy Scouts of America
- Completion of a program of learning in accounting or auditing
- Other relevant financial experience (for example, service on boards of banking or investment institutions or experience as a banker or investment adviser)
- Experience serving on audit committees of other not-for-profit organizations

General Responsibilities:

The chairperson:

1. Acts as the Committee's spokesperson, including acting as the chair of each Committee meeting.
2. Provides advice and counsel on matters relating to the work of the Committee to (a) the Scout executive and other members of management, (b) the Board, and (c) the external auditors.
3. Reviews annually and ensures compliance with the audit committee charter.
4. Creates, in collaboration with the Scout executive and the external auditors, an annual work plan for the Committee, monitors the execution of the work plan, and modifies it as necessary.
5. Conducts regular assessments of the effectiveness of the Committee's performance and reports to the Board on the work of the Committee in a timely and comprehensive manner.
6. Provides frequent educational opportunities for the Committee members.

Specific Responsibilities:

Without limiting the generality of the responsibilities of the chairperson as described above, the chairperson shall:

(a) Schedule appropriate frequency and timing of Committee meetings each calendar year so as to enable the Committee to carry out its responsibilities diligently and effectively.

(b) Create, in consultation with the Scout executive and the external auditors, the agenda for each Committee meeting with a view to establishing the appropriate priorities, and fulfilling the obligations of the Committee under its charter and in accordance with its work plan.

(c) Hold pre-audit-committee-meeting sessions with management, the external auditor, and the internal auditor to review all the written materials to be sent to the members of the Committee before such materials are sent to them; prioritizing the issues; and reviewing and deciding on how the issues can best be presented to the Committee.

(d) See to it that the Committee receives all materials to be discussed at the meeting at least one week before the meeting.

(e) Prior to any Committee meeting, confer with one or more Committee members on any matter to be discussed at the meeting if, in the chairperson's opinion, the discussion of that matter at the meeting would be thereby enhanced.

(f) Encourage all members of the Committee to attend all meetings in person, but in circumstances where a member is unable to attend in person, make appropriate arrangements for that member to attend by way of telephone, teleconference, videoconference, or other methodology.

(g) Conduct each meeting in an environment of sharing information candidly and in a timely manner, giving all members of the Committee the right to hold and express dissenting opinions with a commitment to best governance practices.

(h) Assist the Committee and management in understanding and respecting the responsibilities of each.

(i) Be available to meet with any member of the Committee, the Scout executive, other officers, the internal auditor, and the external auditor between meetings of the Committee.

(j) Review the draft minutes of the meeting with the secretary, make any amendments that may be required, and approve the final draft before it is submitted to the Committee for its approval.

(k) Attend meetings of other Board committees whenever necessary or desirable to facilitate the effective performance of the Committee's duties.

(l) Receive regular reports regarding complaints, concerns, and breaches of the code of ethics as well as ongoing investigations in connection therewith.

(m) Perform such other functions as the Board may, from time to time, reasonably specify.