

TANDEM CLUB PARTNERS

PERSPECTIVE

Are Auditors Overstepping?

Outside auditors are not only helpful in protecting your club, members and staff from legal issues regarding accounting practices, but are often times required either by law, bylaws or both. While the outside auditor perspective to ensure your books are in order is a great way to end the occasional finance committee debate using an independent third party, the trend of encroachment into governance and management practices is becoming a more frequent topic of conversation amongst club professionals.

Historically, an auditor's primary duty is to express an opinion of the fair presentation of financial statements in accordance with generally accepted accounting principals (GAAP). Additionally, some audit firms may take this reporting a step further to provide an opinion on controls and practices that impact financial performance. This second part of an auditor's role is what can, at times, spiral out of control, wreaking havoc on an operation and the management team.

Much like clubs can be wrought with board and committee members finding solutions to problems that do not exist, so too can the outside auditor. A true story within the club industry (the identities of those involved shall remain confidential to protect both the innocent and the guilty) is the outside auditor, employed by this club every year for many years, that routinely congratulated the Club and the Club's Chief Financial Officer, on excellent practices and a clean audit. However, as a professional firm paid to find something wrong, the auditor made the recommendation to the formation of Compensation Committee, though pay rates were in-line (most slightly below) industry standards and a documented history of structured, process and data-driven compensation changes was evident. Essentially...comp was in-line, changes were made consistently and objectively and the staff was happy with their pay. However...the recommendation of forming a committee was made and few things excite ambitious, nosey volunteer leaders more than the knowledge and involvement of how much the staff gets paid. Without doubt the auditor had no intention of recommending this level of micromanaging, but an outside auditor the specializes in private clubs should have known better. While this newly-formed Compensation Committee was formed under the guise of simply establishing a "compensation philosophy", eight months later they were approving pay rates of assistant golf professionals and shop clerks. While the intentions were good, there is road to somewhere paved with good intentions...

The moral of the story is to not rest on your laurels that an auditor is an auditor. Review the audit agreement carefully and make absolutely sure that duties and limitations are documented and the entire cast of characters is well aware of the rules of the game.