

## Financial Reviews versus Audits for RC&D Councils

The purpose of this financial measure is to ensure that NRCS is partnering with sound business partners. OMB circular A-133 requires that a recipient of Federal funds perform an audit if it has expended over \$500,000 of Federal monies in a fiscal year. Therefore, if a council expends less than \$500,000 in Federal funds, new NRCS policy only requires an external financial review every other year.

The following describes the differences between reviews and audits.

**A review is smaller in scope and may bring to the attention of the RC&D Council significant matters affecting the financial statements.** A review is an inquiry of the RC&D Council's analytical procedures, which will provide the reviewer a reasonable basis for expressing limited assurance that there are no material issues in the RC&D Council's financial statements. While internal reviews should be used for on-going quality control, NRCS requires an external review to demonstrate sound business management for the purposes of the Annual Assessment.

**An internal review**, is a frequent or ongoing audit conducted by an RC&D Council's own (as opposed to independent) financial officers or financially proficient volunteers to: 1) identify significant risks and take steps to minimize and mitigate those risks, 2) assess the effectiveness of the RC&D Council's internal controls and report findings to the full board of directors, 3) verify financial records, 4) identify, address and recommend additional monitoring or changes to the RC&D Council's system of internal controls, and 5) assist with increasing efficiency and effectiveness of operations. This should be a continuous event monitored by the board of directors. *Internal reviews can help identify and correct control problems before they are discovered during an external review or audit.*

**An external review** is conducted by an external or outside contractor licensed in that state, and not an employee of the organization. Its objective is to provide limited assurance as to the financial statements of the RC&D Council and to determine, among other things, whether: 1) the RC&D Council's analytical procedures that apply to the financial statements are fair and accurate, 2) the RC&D Council's financial statements or supporting information appear inconsistent or otherwise questionable to warrant further review, 3) limited assurance is provided in the form of a statement such as: "We are not aware of any material modifications" for the financial statements to be in conformity with the Generally Accepted Accounting Principles (GAAP), and 4) the financial statements prepared from the accounts fairly present the organization's financial position, and the results of its financial operations. (However, it does not confirm balances.)

**An audit is larger in scope and is designed to test the overall reliability of an RC&D Council's financial statements and provide a reasonable basis for expressing an opinion regarding the financial statements taken as a whole.** Further, an audit will provide a systematic examination and verification of an RC&D Council's books of account, transaction records, other relevant documents, and physical inspection of inventory by the auditor. An audit can include a review of internal controls, testing of selected transactions, and communication with third parties. The auditor will issue a report on whether the financial statements are fairly stated and free of material misstatements. An audit can also perform physical inspections by observing the council's inventory counting methods and perform test counts.