

**HOA Audits:
A Practical Guide for Community Managers**

**How to reduce audit back-and-forth, avoid delays,
and help your board feel confident**

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A successful HOA audit isn't about perfection—it's about preparation, clarity, and strong communication. When community managers and boards understand what to expect and what auditors truly need, the audit becomes a smoother, faster process that strengthens transparency and builds trust across the community.

HOA audits can feel stressful—especially when you're balancing board expectations, financial deadlines, and the reality that the books aren't always as "audit-ready" as everyone hopes. Most community managers have experienced the same cycle: the auditor requests documentation, the board asks why it's taking so long, and the process becomes more painful than it needs to be.

The good news is that strong audits don't happen because of auditors alone. They happen because of prepared community managers and informed boards. When managers understand what auditors need, how the audit process works, and what causes delays, they can reduce back-and-forth, control costs, and help boards feel confident in the final financial statements.

At its core, an audit is performed under Generally Accepted Auditing Standards (GAAS) by an independent CPA. The auditor examines the financial statements and evaluates what management provides. It's important to understand that auditors do not create or correct records. Their role is to test and validate what is already there. The final deliverable is an audit opinion stating whether the financial statements are fairly presented and free from material misstatement.

That "material" part matters. An audit is considered the gold standard in financial reporting, but it does not guarantee that every transaction is perfect or that all fraud will be discovered. A clean audit opinion doesn't mean there were no issues—only that nothing rose to the level of a material misstatement in the financial statements. Governance recommendations and management comments may still identify areas for improvement.

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One of the most effective ways to reduce audit delays is to provide a complete, organized audit-ready file from the beginning. Auditors typically need year-end trial balance and general ledger reports, bank statements and reconciliations, and any significant or material invoices. They also need key governance documents such as the governing documents and approved budget, board minutes that include financial approvals, and an up-to-date board of directors listing. In addition, they often request disclosure of legal issues, major contracts, the reserve study, and the association's insurance policies.

When these items are missing or incomplete, the audit slows down quickly. In practice, the most common causes of audit delays are unreconciled bank accounts, missing accruals, reserve misclassifications, and the board delays after the draft financials have already been issued. These delays are rarely caused by the auditor. More often, they stem from records not being fully finalized before the trial balance is sent.

Before providing the trial balance to the audit team, managers can dramatically improve the process by running an audit readiness check. This includes confirming all bank and investment accounts are reconciled, reviewing assessments receivable and any allowances, verifying prepaid insurance is recorded correctly, and ensuring all accruals, liabilities, and prepaids are complete. Managers should also confirm that long-term debt agrees to the final year-end statement, and that reserve activity is correctly classified.

The community manager's role during an HOA audit is often underestimated. In many ways, the manager is the bridge between the board and the auditor. Managers are typically the primary liaison, the person who answers questions related to general operations, and the

one responsible for gathering documentation and keeping the process moving. They also play a critical role in managing board expectations around timing, scope, and what an audit can realistically accomplish. A well-run audit supports transparency and strengthens owner confidence, but it's equally important to remember that the board—not the auditor—must approve financial decisions.

Planning ahead is another major factor in keeping the audit on track. HOA audit work is often concentrated during the summer season for CPA firms, so waiting until the last minute can result in scheduling challenges. A best practice is to contact the auditor between May and December to request a proposal for the next calendar year, ensuring the estimated quote is properly budgeted for the next year. Providing monthly financial statements throughout the year can also help the auditor understand the association's activity level and provide a more accurate estimated fee. A typical timeline includes planning and information requests about three months before the issue date, followed by fieldwork and testing, preparation of draft financial statements, board and management review, and final issuance with a board presentation.

Throughout the process, boards will naturally have questions, and managers should be ready to answer them confidently. Common questions include whether any internal control deficiencies were noted, how actual results compare to the approved budget, whether any material audit adjustments were made, and whether reserves appear aligned with the reserve study. Managers who can anticipate these questions and communicate clearly help reduce confusion and build trust.

There are also several common myths that can derail expectations. Some boards assume audits detect all fraud, but in reality, audits are designed to support compliance and accuracy—not to guarantee fraud prevention or detection. Others assume small associations don't need audits, when in reality every association should want to protect its assets. Some believe audits are unnecessary if the books appear balanced, but audits are often essential for confirming proper separation of duties and financial integrity. Another misconception is

that the auditor manages internal controls, when internal controls are the responsibility of management and the board. Finally, boards often assume a clean opinion means no issues exist, but remember to ask for the governance and management letters that go with the audited financial statements.

Community managers can add real value by recognizing red flags before they become audit issues. Frequent overdrafts or tight cash flow, large or aging assessment receivables, reserve funds being used for operating expenses, missing documentation for invoices and approvals, and boards having access to cash or investment accounts are all warning signs that deserve attention. Addressing these early reduces risk for the association and leads to a smoother audit process.

For associations in North Carolina and South Carolina, it's also important to recognize that statutes often defer to governing documents. Many associations require audits through bylaws or lender agreements. Strong audit practices also support the board's fiduciary duty, and consistency and transparency can reduce owner disputes. In addition, community recognition programs such as CAI-NC's Seal of Distinction and South Carolina's Blue Ribbon Communities require an audit or review as part of the application process.

Finally, managers should be aware that accounting standards continue to evolve. While managers are not expected to implement technical guidance, knowing when to call a CPA can prevent issues later. Recent updates include ASC 606 on revenue recognition, which impacts reserve revenue presentation; ASC 842 on leases, which affects associations with lease arrangements; and ASU 2025-05 on credit losses and allowances, which updates how associations evaluate collectability. These standards don't require managers to become accountants—but they do reinforce the value of having a trusted CPA partner.

HOA tax compliance is another important component of year-end financial reporting. Associations in both North Carolina and South Carolina are required to file federal and state tax returns annually. Returns are due April 15th, or October 15th with an extension. Payment is due with the extension, and quarterly estimates are generally not required. Associations also need to review their tax filing method each year rather than assuming the same approach will always apply. The two most common options are Form 1120, which follows the traditional corporate method and subjects association income to taxation, and Form 1120-H, which is specifically designed for HOAs and can provide significant benefits when eligibility requirements are met.

Ultimately, the strongest audits are the result of preparation, not perfection. When managers reconcile accounts, ensure accruals are complete, organize documentation, and communicate proactively with both the board and the auditor, the process becomes faster, cleaner, and less expensive. Audits provide confidence, strengthen transparency, and help protect the association's assets—but the best outcomes happen when managers and boards work together with clear expectations and strong communication.

KEY TAKEAWAYS



A smoother HOA audit is possible when the right expectations and preparation are in place. The most important things to remember is that community managers can significantly reduce back-and-forth by ensuring the trial balance is finalized, and documentation is organized before the audit begins. Strong audits also require strong communication: managers serve as the bridge between the board and the auditor and play a key role in helping boards understand what an audit does, what it doesn't do, and what questions they should be asking. Finally, audits provide confidence—not perfection—and are most effective when managers and boards work together to protect the association's assets through consistent oversight and strong internal controls.

Balanced. Responsive. Connected.



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