

McGladrey & Pullen

Certified Public Accountants



What to Expect from Your Auditor and What Your Auditor Expects from You

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PRESENTERS

- **John J. Gilberto**, CPA, MBA
 - Partner – Assurance Services
 - Over 21 years of experience in public accounting and industry
 - Specifically focused on governmental entities
 - Serves on the NCACPA Governmental Auditing and Accounting Committee
 - Serves on the GFOA's Special Review Committee
 - Served on Audit Committee of a privately held company
- **Douglas B. Beelendorf**, CPA, MBA
 - Director – Audit & Accounting
 - Over 17 years of experience in public accounting and industry
 - Technical reviewer focused on the governmental entities
 - Serves on the GFOA's Special Review Committee
 - Background includes SEC reporting for a large, international textile manufacturer

Auditee vs. Auditor

- **Auditee**
 - Employees of the entity. Not independent of the entity
 - Responsible to the Board and/or Audit Committee providing opinions on the entity's risks, internal controls and financial statements
 - Responsible for monitoring and maintaining an effective system of internal controls
 - There everyday involved in the detail transactions of the entity
- **Auditor**
 - Hired by the entity. Independent of the entity in fact and appearance
 - Report directly to the Board and/or Audit Committee to attest to the accuracy of the financial statements and the entity's system of internal control over financial reporting
 - Obtain an understanding of internal controls sufficient for performing an audit
 - There for a brief period of time and performs testing on samples of transactions

Types of Relationships

- None
 - No support provided whatsoever; segregation epitomized
- Cost-Benefit
 - Work performed in consideration of external auditor fee reduction
- Partnership
 - On-going development of audit process building on previous years' experiences based on risk assessments, audit techniques and information gathered

No Relationship

- Pros
 - Clear Distinction
 - Management is focused on the needs of the entity
 - Auditor is focused on attesting to the accuracy of the entity's financial statements and management's assessment of internal control over financial reporting
- Cons
 - Lack of communication
 - No sharing of –
 - Risk areas
 - Concerns
 - Entity knowledge
 - Duplication of effort
 - Potentially dysfunctional relationship based on lack of equity between two groups
 - Quid pro quo

Cost-Benefit Relationship

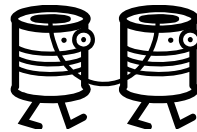
- Pros
 - Support sharing and coordinating of activities where clear value proposition exists
 - Results focused
 - Potentially lower external audit fees
 - Sharing of information
 - Changes in programs
 - Any reports prepared
 - Status of open recommendations
- Cons
 - Inability to value benefits of utilizing internal resources
 - Relationships within entity
 - Narrowly focused on specifically assigned tasks
 - Lack of completely open communication

Partnership Relationship

- Pros
 - Cost-benefits realized
 - Synergies derived from working together
 - Communication of ideas to improve audit strategy
 - Free flow of communication and information for better work product
 - Entity benefits from closer coordination of two functions
- Cons
 - Compromised independence and objectivity
 - Particularly when either party is asked to express opinion on the other to Audit Committee
 - If communication is not timely, coordination of work efforts and planning suffer

FOUNDATIONS OF A GOOD RELATIONSHIP

- COMMUNICATION



- OVERCOMING AUDIT OBSTACLES



- PLANNING



COMMUNICATION

“In the end, we will remember not the words of our enemies, but the silence of our friends.”

Dr. Martin Luther King, Jr.

COMMUNICATION

THE CORNERSTONE OF ANY GOOD RELATIONSHIP

- Aspects
- Methods
- Attributes



COMMUNICATION

ASPECTS

- Identify parties involved
- Develop understandings and expectations
- Create efficiencies
- Comply with Standards

COMMUNICATION

METHODS

- Formal vs. informal
- Individual vs. group
- Timing
 - Real time – as issues arise
 - Set dates – (i.e., weekly, biweekly, etc.)



COMMUNICATION

ATTRIBUTES

- Accurate
 - Facts, data and analysis
- Supportive
 - Reassurance, sympathy and connectedness
- Persuasive
 - Credible, knowledgeable, captures attention

COMMUNICATION

ADDITIONAL THOUGHTS

- Be proactive
 - It's easier than playing catch-up later
- Avoid surprises
- Be creative
- Don't take things personally
- Step back and take a deep breath
- **KEEP TALKING!!**



OVERCOMING AUDIT OBSTACLES

- COMMUNICATION
- IDENTIFYING PROBLEMS
- EXPECTATIONS
- PLANNING
- EVALUATE



OVERCOMING AUDIT OBSTACLES

COMMUNICATION

If this is you, you probably didn't catch that we just went over communication! Hang on, we're not even half way through yet!



OVERCOMING AUDIT OBSTACLES

IDENTIFYING PROBLEMS

- Poor financial position
- Poor internal controls
- Unorganized and inaccurate financial data
- Failure to understand expectations
- Lack of commitment
- Failure to communicate

OVERCOMING AUDIT OBSTACLES

EXPECTATIONS – auditee

- Early identification and communication of issues
- Help optimizing the audit process
- Adherence to deadlines
- Responsiveness to auditor's comments and concerns
- Proactive approach to internal control
- High level of integrity and ethics



TOP 10 THINGS I DISLIKE MOST ABOUT THE AUDITEE

6. Employees are told only to give name, rank and serial number to any questions asked.
7. Each year, the auditors become the temporary bookkeepers.
8. Last year's AJEs were never made.
9. The client likens auditors to the Bermuda Triangle – anything lost, it must have been the auditor!
10. "The auditors are coming; is the broom closet available?"

OVERCOMING AUDIT OBSTACLES

EXPECTATIONS – auditors

- Qualified staff assigned to engagement
- Minimal turnover year-to-year
- Flexibility of audit schedule
- Knowledge of government industry
- Informed on current events
- Effective and timely information
- Added value – beyond the audit



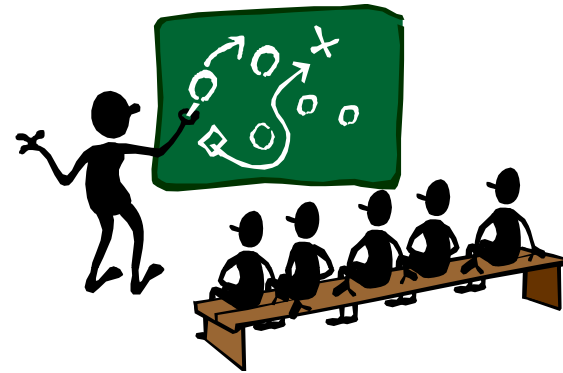
TOP 10 THINGS I DISLIKE MOST ABOUT THE AUDITOR

6. They keep reversing my entries; I feel like I'm going backwards.
7. They aren't here long enough to take us to all the best restaurants in town.
8. Whenever they find an error, they do this sneaky auditor detective game and ask if I look good in an orange jumpsuit.
9. They all dress in the same suit, including the women.
10. They turn my conference room into their college dormitory.

PLANNING

SET A GAME PLAN (GOALS)

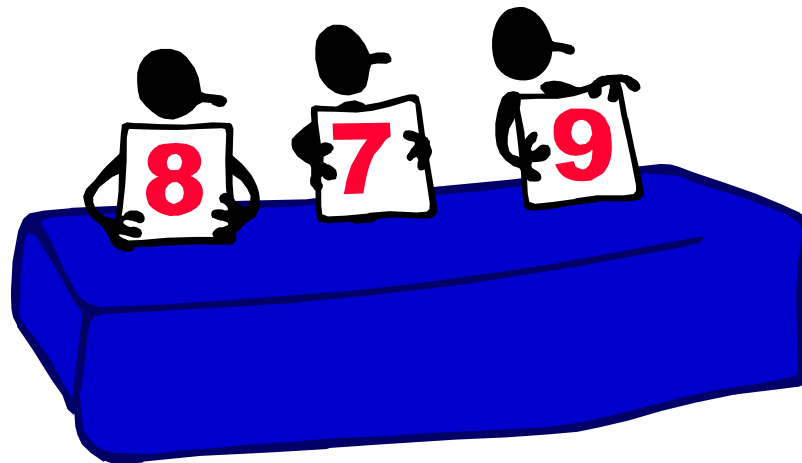
- Written strategy
- Joint effort
 - Agreed to by all parties involved
- Balanced
 - Who does what?
 - Should do's
 - Want to do's



PLANNING

KNOW THE SCORE

- Discuss with your supervisor
 - Are you ahead or are you behind?



PLANNING

DEFINE THE TARGET

- Know your aim



"You've got to be very careful if you don't know where you're going, because you might not get there."



PLANNING

DEFINE THE TARGET

- Be flexible and creative



"I have not failed. I've just found 10,000 ways that will not work."

Thomas Edison



PLANNING

WORK – WORK – WORK

- Prioritize
- Make it a habit
- Don't procrastinate
- Embrace challenges
- Make it fun!

"Thinking is the hardest work there is. Which is the reason so few people do it!"

Henry Ford

PLANNING

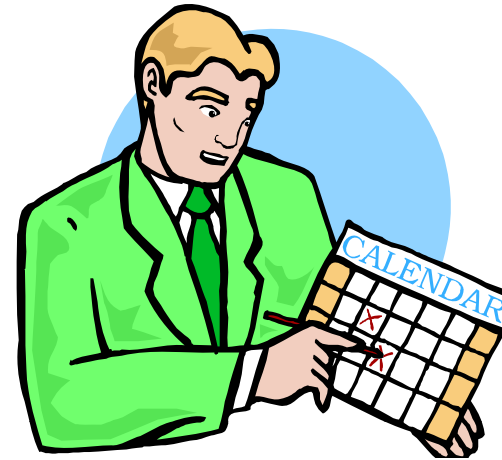
SWEAT THE DETAILS

- Ensure the accuracy of your work
- Know your limitations
- Acknowledge fear and grief, but set them aside
 - Worry has no power unless you give it some
- Take pride in what you've done!
- "The Best Defense is a Great Offense!"

PLANNING

EXECUTE

- Start with the end in mind
 - Set realistic timetables
 - Discuss –
 - Impact on financial statements
 - Key audit issues
 - High risk areas and other concerns
 - Materiality and scopes
 - Inform departments of responsibilities and timetables



PLANNING

PRELIMINARY FIELDWORK

- Develop an audit strategy
 - Scope
 - Big picture view –
 - understanding the client's environment
 - recent developments
 - Setting goals and expectations
- Coordinating audit plans
- Brainstorming
- Identifying risks of material misstatement and significant risks

PLANNING

FIELDWORK

- Open communication
- Periodic meetings and status reports
- Review of internal audit assistance, if applicable
- Follow-up on identified issues

PLANNING

CLOSING

- Finalize reviews
- Finalize control deficiencies letter and management's response to identified deficiencies
- Present reports to management and audit committee
- Learning opportunities
 - What worked well and what didn't!

MAKING THE GRADE

Evaluation may serve two complimentary functions:

- In one context, the aim is prospective, or *formative* – to improve, to understand strengths of the audit process and isolate weaknesses
- The other context is retrospective, or *summative* – to appraise the current performance as part of a process of acknowledgement or giving commendation

Formative

- ✓Prospective
- ✓Analyze toward improving
- ✓Develop habits
- ✓Shape direction
- ✓Feedback

Summative

- ✓Retrospective
- ✓Document achievement
- ✓Document habits
- ✓Show results
- ✓Provide evidence

GRADING THE AUDITEE

Communication

- ✓ Ownership
- ✓ Cooperation of personnel
- ✓ Attitude of personnel
- ✓ Organized data

Proactiveness

- ✓ Quality of financial statements
- ✓ Reaction to issues
- ✓ Responses to the control deficiencies letter
- ✓ Informed team



TOP 10 THINGS I DISLIKE MOST ABOUT THE AUDITEE

1. Reconciling the fund... in balancing my spouse's checkbook.
2. Standard reconciling... difference."
3. Typical response to... "We'll consider it next year."
4. The client is like Sergeant Schultz from Hogan's Heroes – "I know nothing."
5. The audit is a great time to schedule vacation time.



GRADING THE AUDITOR

Communication

- ✓ Responsiveness
- ✓ Providing creative solutions
- ✓ Listens well
- ✓ Treats you as a valued client

Proactiveness

- ✓ Understands your business
- ✓ Compatible with client personnel
- ✓ Continuity of audit personnel
- ✓ Value of fees



TOP 10 THINGS I DISLIKE MOST ABOUT THE AUDITOR

1. Auditors are the people who come in after the war's been fought and bayonet the wounded.
2. My auditors think GAAP is where they buy their jeans.
3. That same auditor drives a nicer car than I do.
4. The new auditor looks younger than my child in high school.
5. "Hello, we're the auditors and we're here to help you!"

Summary

COMMUNICATION

COMMUNICATION

COMMUNICATION

COMMUNICATION

CLARIFICATIONS

