

# Changing Audits

## What Your Company Should Know

By Jenifer Groth

Your company may be experiencing some differences in the way your audit is being conducted. To begin, you're probably spending more time with your auditor.

The main reason: Auditors are working hard with their clients to ensure they are following the risk assessment standards established by the American Institute of Certified Public Accountants (AICPA), the national professional association of CPAs, in late 2006. The AICPA sets U.S. auditing standards for audits of private companies, and it's important for you to understand how these standards affect you.

Why, you may be asking, was there a need for these rules to be implemented? There are several reasons. First, and foremost, the rules were implemented to increase the effectiveness and consistency of the audit. They were also designed to give the auditor a better understanding of its client and the risks associated with a client's business. A third reason is to mirror many of the key themes of the Sarbanes-Oxley Act for public companies with respect to internal controls. And, finally, they are intended to address significant risk areas to ensure that financial statements are not materially misstated.

While the standards are intended to improve audit effectiveness and enable more consistency and uniformity through the audit process, they also go a long way toward closing the expectation gap between what CPAs do and what clients and other users of audits expect.

### End results

As a client, a more thorough, effective audit will add significant value to your company. You will reap the benefits from the identification of problems and recommendations for improvements in internal controls and operating efficiencies. Advice you receive regarding governance and operational controls will be advantageous, as well as the understanding you will gain of the quantitative and qualitative issues identified. And perhaps most significant to your business success and future growth, it will increase the ability of your CPA to assist you better as a business advisor.

In order to have an effective audit that complies with the risk assessment standards and reduces the legwork your auditor performs, you will have to increase the time you spend in preparation. CPA firms in Indiana have already estimated a 15% to 30% increase in hours spent performing audits because of the extra time needed to gain a better understanding of the entity they are auditing. The amount of work an auditor has to do will depend on the complexity of your financial structure.

Additionally, auditors are issuing internal control letters to clients when little or no communication in this area was required in the past. As an end result, it is important for you to know that your audit fees may increase because your audit firm also is incurring significant new costs.

### Getting started

There are things your company can do to reduce the amount of time your auditor will need to complete the audit. You should establish and document internal controls over account balances and accounting processes and identify significant risk areas (both internal and external) that are being addressed by management and/or the board. Also, it is important to provide your auditor with access to company personnel involved with the process and the identified key controls in advance, as well as for you to communicate with your staff the fact the auditor will need to ask more questions and perform walk-throughs of transaction processes.



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What else should you know about your company audit? Auditing, which is an independent assessment of financial statements, is a service only CPAs are licensed to perform. The audit function is regulated by the AICPA's Auditing Standards Board, which issues the Statements on Auditing Standards. A total of 114 auditing standards now exist. All CPA firms are bound by these new standards and if they are not followed, the audit is substandard.

To learn more about the CPA profession's risk assessment standards and how they will affect your company and third parties, contact the Indiana CPA Society at (317) 726-5000 to request a copy of the brochure, *What You Need to Know About Your Audit*, or download it at [www.incpas.org/KeepingUp/PDFs/2007AuditRiskBrochure.pdf](http://www.incpas.org/KeepingUp/PDFs/2007AuditRiskBrochure.pdf).

### INFORMATION LINK

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