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How to Disagree with Auditors

By: *Dan Swanson*, adapted by Martha Lindley CPA

Auditors are required to tell management when control failures are exposing them to risk. Still, many managers at some point disagree with their auditor's assessment. Can companies make auditors revise their assessment? And if not, what's the best way to find common ground in those disparate views?

Getting an auditor to revise an assessment does not require a "strategy," just facts. An auditor's function is to provide an independent and objective opinion. If relevant facts can be provided that supports an alternate viewpoint or a strong compensating control, the auditors may adjust their opinion based on new facts.

Disagreements are generally painful (yes, even for the auditor) - awkward at best, disastrous at worst. Thus, there are two goals when disagreeing with the auditor: (1) resolving the disagreement, and (2) determining how to prevent disagreements in future audit cycles.

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> WE ARE JUST PLAIN-LANGUAGE AUDITORS

Most issues fall into one of two categories:

1. The auditor's assessment is incorrect, but may be based on erroneous or information provided by the client or provided by the incorrect person at the client's. In this case, meet immediately and provide full and factual information. For this to occur, the right people need to be available throughout the audit process.

2. The auditor's assessment is materially accurate, but there is disagreement on the significance of the problem **or** the client does not want the issue to be reported. This is the more common type of manager/auditor disagreement. Unfortunately, it tends to spark less productive discussions, since it challenges auditor judgment, not audit findings. A successful strategy for adjusting auditor opinion should focus on the report tone, item significance and recommended action plan.

Sometimes management disagrees not with facts, but with the auditor's interpretation of the significance of the situation. Management is less concerned with the facts than the quality of the audit report. What happens if the auditor and manager cannot come to an agreement? The auditor has a professional duty to meet professional obligations, first and foremost. If retaining the client and retaining the fee is of greater importan to the auditor than factual reporting, then the auditor is "drinking the Kool-Aid" (to succumb to any external influence that affects a person's opinion of something).

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Charitable Deductions - Smoke and Mirrors

The charitable contribution deduction, as it has been since 1986, does not provide the significant benefits of reducing tax liability. First, the taxpayer must qualify to file Schedule A, which is mostly available to homeowners. In 1998, the IRS stated only 31% of all taxpayers completed Schedule A.

The benefit is roughly 25 cents tax reduction for every $1 donated. The most favorable place for the tax deduction would be on page 2 of Form 1040 with a credit of $1 against the tax liability for each $1 donated and would be available for every person making a charitable deduction and filing a tax return (only 75% of the population are required to file a return).

DISAGREE AUDITORS cont pg 1

Preventing a disagreement is more desirable than resolving a conflict that has already generated tension and even ill will between the disputants. To reduce the potential of audit-related conflict, management must be involved early and often with each audit. It is not uncommon to be asked, “Do I have to be there? Do you need me for anything?”, hoping to be dismissed from the audit. The client presence is the best and first defense against problems and having access to the “right” person.

During audit planning, management and auditors should discuss the audit scope, purpose, objectives, approach, and proposed evaluation criteria. This is also documented in the engagement letter. During audit testing, management should understand what the audit team is doing; what audit tests are being performed and generally what the test results are. During audit reporting, management should request a briefing of the main issues and what the key recommendations will be - prior to the actual writing of the audit report. If not conducted during fieldwork, a call later can be useful.

The audit team should establish an open and transparent audit process, from start to finish, that allows managers to better understand and fully participate in the audit process. This way, when disagreements do occur (and they will) the "discussions" will be productive.

BOARD MINUTES -THE BASICS

Meeting minutes serve to record what was done (the actions) at a meeting, not what was said at the meeting. Minutes serve as the legal record of what was decided at a meeting. During a lawsuit, they will be among the first documents that all parties will request and will be given more weight than what any particular individual recalls happening at a meeting. Robert’s Rules recommends that minutes contain the following items:

- Type of meeting
- Date, time and place of meeting
- Names of presiding officer and recorder of minutes
- Members present (members absent is optional)
- Establishment of a quorum
- Record of action taken at previous meeting
- Exact wording of each main motion as it was voted on, name of maker of the motion and whether the motion passed or failed
- If the vote on the motion was counted, the count should be included.
- Dissenting votes should be included only if a member requests that they go on record
- Any notices given at the meeting, especially for items that require that previous notice be given.
- Points of order and appeals

Robert’s Rules recommends that the following should **not** be included in minutes:

- Opinions or interpretations of the recording secretary
- Judgmental phrases like “heated debate” or “valuable comment”
- Discussion (remember, minutes are a record of what was done, not what was said)
- Motions that are withdrawn
- Name of the person who seconded a motion
- Flowery language
- Detailed reports

Halsall, M. (2002). Art of minute taking. OfficePro, 62(2), 24-25.
Howe, J.T. (2002). Robert's rules still rule: How to follow parliamentary procedure…. Meetings & Conventions 37(4), 36.
Jacobs, J. (1999). Preparing proper minutes of association meetings. Association Management51(1), 131-132. Sylester, N. (2004). Just a minutes. In The Complete Idiot's Guide to Robert's Rules (pp. 203-

ANALYSIS OF FACTORS INFLUENCING AUDIT DELAY

By Martha A Lindley CPA

Some audits audit themselves and are out the door in no time – some languish on the bookshelf of unfinished audits. The timeliness of an audit report correlates with its usefulness to management. The research determined large firms have 161 (5 months) days beginning to end for audit, and the "ordinary accounting office" is 120 days (4 months). I have reviewed several studies on the research, which tested ten hypotheses for a significant factor that influences audit delays:

1. Auditor opinion influences audit delay – Yes, significant correlation. Opinions that are modified require additional audit procedures, additional client meetings and stakeholder discussions.
2. Financial distress of the client effect delay – Yes, delay occurred to wait until the current financial picture will outweigh the past, poorer financial report, or what the researchers refer to as poor earnings quality. In addition, auditors (per research) spend more audit time on struggling clients. This also pressures the auditor, who must remain independent or who may fear losing a large client, or have limited resources to expand the audit due to time and manpower constraints. The probability of bankruptcy and litigation looms large in the mind of the client and the auditor causing delays in issuance.
3. Multi-national client company influences delay – Yes, different branches prepare reports at different times for consolidated reporting, which may lead to internal delays.
4. Industry type effect delay – Yes, banking firms average 52 day turnaround and manufacturing, a 72 day turnaround.
5. Company size of the client influences delay - No significant correlation on audit delays, although larger clients can pressure to have audit reports done quickly due larger fees equaling more pressure for timely performance.
6. Large outstanding loans – No significant correlation on audit delays
7. Profit and loss effect audit delay – No significant correlation on audit delays
8. Extraordinary items influence delay – No significant correlation on audit delays
9. Good governance by the client influences audit delay– No significant correlation on audit delays
10. Reputation of the audit firm influences delay – No significant correlation on audit delays, the assumption would be large firms have a faster turnaround with large staff, however, large and small audit firms both experience delays .

Contrary to expectations, firms that use a structured audit technology (statistical sampling, internal control evaluations that are structured, and integrating testing results) have MORE delays that those using an unstructured, auditor judgment approach. A structured approach is now mandated by the AICPA thru the risk based assessment process. This, and other audit standards, provide a structure for the audit to improve quality and lower litigation – and apparently, lead to audit delays and increased audit costs when implemented. As a client, you may be interested in determining how your auditor conducts audit procedures.

Interpretation of Abnormal Audit Delays: Implications for Earnings Quality and Firm Value Analysis of Factors Influencing Audit Delay; Haron, Hartadi, Subroto

TECH CORNER

Spotlight on an Excel function: Extend formula across/down

By Ryan F. Kauzlarich, Senior Audit Manager

The fastest way to repeat a formula into adjacent cells is to extend the formula. Click the cell with the formula you want (which will make a black box around the cell), then mouse-over in the bottom right corner of that black-boxed cell and the pointer changes into a solid, black "**+**", then drag the formula across or down to where you want it to end. You can also double click the "**+**" and Excel will take it all the way down if you have continuous data. Sometimes a copy and paste (either regular paste or paste formulas) will be faster for you.

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Lindley & Associates LLC newsletter is written by Martha Lindley CPA, providing timely articles for nonprofits. As a national speaker on nonprofit issues and Single Audit compliance, she personally writes and provides the quarterly newsletter to over 400 nonprofits as a contribution to our nonprofit community. Also available on-line at LindleyCPAS.com.

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