



The Auditors are here, what should we tell them?

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We would like to cover two topics in this edition. The first topic is providing auditors access to both staff and information without restriction and the second topic is defining what the audit response represents. In a sense, both of these topics are related and reflect on management's attitude towards the audit process.

Auditors following the professional literature must evaluate management's concern about the organization's integrity, openness to an audit, and their desire to grant access to all the right people and information the auditor needs during an audit without restriction. This professional evaluation uses the catch phrase of *the tone at the top*. Does management truly want an open and thorough audit or do they want to make sure that staff discussions with auditors only result in no audit findings?

Red flags go up when management requires that they or one of their designees must attend every meeting, inspect all documents given to the auditors, and allow for only the designee's response to be the agency's official response to a question during audit fieldwork. Such limitations increase an auditor's skepticism that management has something to hide, management does not trust their staff, or there are problems with what the staff knows. These restrictions are not a positive *tone at the top*.

As an office, we have the statutory authority to conduct surprise audits without making arrangements with management to provide access to staff and materials. While we have the authority, we find that these audits are generally not productive and are more often disruptive to both the auditors and the agency. However, we do use this approach when we are conducting fraud or other special examinations.

One of the final professional questions that an auditor needs to answer is whether they have received sufficient information to reach a conclusion about the financial condition of the agency. The auditor must answer the question as to whether he can conclude from the information received that the financial condition and practices are sound and that objectives for good internal control are met. This conclusion is reached by not only getting the documents requested by the auditor but also by the nature and extent that both the staff and management answered the questions and provided the information without restrictions.

If obtaining the documentation was made difficult and staff were reluctant to meet and answer questions, the *tone at the top* has the appearance of not cooperating.

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As such, the auditor will still have questions regarding the soundness of the internal controls. Ultimately, these obstacles become what auditors define in professional terms as a scope limitation.

While you may think that the information in this part of the article is made up, these types of events are not too dissimilar from the events and attitudes of a number of big firms that faced financial scandals. As indicated by the passing of the Sarbanes-Oxley Act of 2002, the auditing profession has increased the requirement of auditors to evaluate and conclude on the *tone at the top* expressed both in writing and by actions during an audit.

The second topic is "What is the audit response letter all about?" The audit response letter is the agency's way of telling everyone that they have reviewed the audit report, especially any findings or recommendations. The agency will identify in this letter whether they agree or disagree with the findings and recommendations. If they agree, the agency will identify what they are going to do to fix the issue. If they disagree, the agency will identify their justification for this disagreement.

The audit letter response is not normally in the same level of detail as the response required by the Department of Accounts (the Corrective Action Plan). If everyone has done their job, we normally do not get responses where the agency does not agree with the findings. Typically, the audit process works out all of the questions about the finding before we issue the final report.

Agreeing with the findings does not mean that the agency is happy with the results of the audit, but that the auditor has obtained sufficient proof to support this finding. If the agency wants to disagree with something in the report and present their side, we allow for that information in the response. However, we do reserve the right to further respond to the agency's response. We typically reserve these comments for when an agency points something out in their response that we have already addressed. Our comments clarify our position that the agency's response does not change the auditor's conclusion.

We have found that oversight agencies and legislators are very interested in the audit response letter especially when an agency is not addressing an issue. Most people understand that some problems take time to fix, but doing nothing is not a solution. Going forward then keeps your *tone* in tune and your response upbeat.