



FINANCE

Audit Quality

Is your government getting what it has paid for?

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Governments are accountable for the use of resources provided by taxpayers. It is this accountability requirement that drives the financial statements government officers prepare on an ongoing and annual basis. These financial statements generally conform to standard accounting principles and are used in the conduct of the audit. The financial statements also provide useful, accurate and timely information to external users.

THE AUDIT PROCESS

Two key factors directly impact the government’s audit process: the experience and expertise of the external independent auditor whose report is attached to the financial statements, and the experience and qualifications of the audit selection committee members who oversee the process. It’s important to have properly qualified participants on both sides of the table.

The process begins with the request for proposals and procedures that most governmental entities will follow as part of their procurement procedures. The information requested in the RFP and the questions asked about relevant experience, qualifications, competencies and audit approach during the oral presentation phase are key to determining whether the auditor is a good fit for the entity. Accounting firms, like people, have distinct personalities. A thorough interview covering the gamut of issues, from technical competence to service approach, will provide the baseline for a successful outcome.

SELECTION COMMITTEE

Evaluating and selecting an audit firm starts with the audit selection committee; therefore, it is paramount that the committee be comprised of members who understand the audit process and what it entails. Otherwise, it is difficult or impossible to evaluate if the bidding CPA firm is able to deliver a quality

audit or whether the government entity will receive all it is paying for. Audit quality and technical proficiency are essential to accountability, as are a firm’s commitment to continuing communications and providing high-caliber professional service in a timely manner. In reviewing the proposals, the committee should consider what makes one firm stand out from others competing for the contract. The answer to that question can be a guidepost to selecting the firm best suited to the entity’s needs.

The audit selection committee may serve multiple functions. It not only chooses the auditor, but also oversees the audit process and the financial reporting process. Governmental entities are, appropriately, highly budget conscious, but as required by many jurisdictions, cost should not be a “significant” factor in the auditor selection process. “Significant” is rarely defined, which allows for broad interpretation. This permits selection committees to weigh the many other factors that will also contribute to the quality and reliability of their auditors.

THE AUDITOR AS ADVISOR

Most governmental entities look to their auditors as advisors to help them ensure the entity has adequate internal controls as well as effective policies and procedures in place. If this is the case for your government, questions or concerns about the audit firm’s credentials to act in an advisory capacity can be addressed in the RFP/presentation process.

The evaluation and selection process for the external auditor of a governmental entity is a pivotal function wherein the right questions and due diligence pay immeasurable dividends in the future.

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