

Audit Efficiencies and Effectiveness in the Real World

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Thoughts on Audit Efficiency and Effectiveness in General:

- What does the marketplace expect from an auditor
- What are trends in pronouncements – more or less regulation
- All things being equal, is it really possible to reduce audit hours

Phase 1: Planning [What can we move “out of peak?”] :

- a. Brainstorming session (preliminary)
 - i) Who should attend
 - ii) Are client interim financials important to have
 - iii) How long should it last
- b. Execute engagement letter early (like at the end of the current year engagement)
- c. Review and documentation of new debt terms/debt maturities/covenants
- d. Proforma financial statements
- e. Meetings with controller throughout the year (can be on the phone)
 - i) Interim results (look at interim statements “hard”)
 - ii) Any new debt or other changes to capital structure
 - iii) Incidents of fraud
 - iv) Accounting problems (should strive for no fieldwork “surprises”)
 - v) Projections for the year
 - vi) What other services can we do
- f. Preliminary planning meeting with the President/CEO
 - i) Overall path of the company
 - ii) Significant events in the past year
 - iii) Disaster plans (what would you do if.....)
 - iv) Trouble with other executives
 - v) Projections for the year
 - vi) Face time
- g. Have we googled the Companys name and see what comes up?
 - i) Corporate news (mergers, bad news, new products)
 - ii) Sales projections
 - iii) Bios of execs
- h. Form expectations (based on multiple factors)
- i. Update depreciation schedules

- j. Rollforward debt maturity schedules
- k. Do amortization schedules; give to client; have them do entries all year
- l. Mail bank confirmations in last week of year
- m. Mail debt confirmations in last week of year
- n. Head up all workpapers; rollforward paperless files
- o. Review and document/highlight new merger/asset acquisition documents
- p. Update internal control assessments (new SAS suite becomes effective for 2007 audits!!!!) on all assertions
- q. Perform and document new FIN 48 analysis on all tax positions that currently exist
 - i) Evaluate tax positions
 - ii) Inform client of impact
- r. Go through each step on the audit program for significance and understanding. PPC and other "canned" programs are only meant as a guide

Phase 2: Fieldwork Specific Ideas (How can we reduce, or better direct, work)

- a. Substantive test of details documentation
- b. Fixed assets (whats the risk??)
- c. Prepaids (whats the risk??)
- d. Can we read signatures on bank confirmations? Have we considered calling signer of confirm?
- e. Can we leverage lack of adjustments in past years to reduce inventory counts?
- f. Can we enhance our PBC letter (put the kitchen sink in it)? Can we access documents before fieldwork starts?
- g. Have we drafted financials based on prelim info?
- h. "Must" test that are cost-effective
 - i) Detail general ledger review (single most effective audit step there is). Glance at every entry in cash and a/r
 - ii) Test g/l entries
 - a) ajes are most likely used to cover errors
 - b) Who posted
 - c) When
 - d) Does account usually have ajes in it
 - e) Did ajes go on the typical "side" for the account
 - f) Amount of the aje relative to size of other entries in account
 - g) Did it change the balance in an account
 - h) Was it reversed the following period
 - iii) Touch the laptops/technology
 - iv) Review t&e reports of executives and salespeople
 - v) Look for ajes in reserve accounts
 - vi) Confirm related party receivables
 - vii) Understand FAS 142 rules on goodwill impairment

Phase 3: Review of Files

- a. Can we review in the field as the work is done? Review SOON after fieldwork is complete
- b. Is this an opportunity for face time?
- c. Can staff explain their workpapers?
- d. Is it more efficient to review workpapers in the field when the staff can clear points in the field?
- e. Would the staff learn from a face-to-face review of the files?
- f. Are there any steps that can be eliminated next year?
- g. Execute next years engagement contract
- h. Where and why have we gone over budget?

Phase 4: Paperless Versus Paper

- a. Know workpaper retention requirements (5 years unless another agency specifies longer)
- b. You are doing the same procedures and steps. On method is not exempt from audit documentation requirements
- c. Which is easier to review? Do you like to have two documents in front of your face at one time
- d. Which is easier to retrieve?
- e. What is the security over the paper files
- f. Portability issues
- g. Technology costs versus storage costs
- h. Spyware issues