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Article for *Minnesota Counties*

Risk Based Auditing Standards: What Effect Have They Had on Your Budget?

By Rebecca Otto, State Auditor

All counties in the State of Minnesota are required to have an annual financial and compliance audit performed. The audit provides reasonable assurance that the financial statements are stated and presented in a fair manner. This is a protection for other governmental units and taxpayers who fund county government services.

With a greater demand for county services due to the economic downturn coupled with state budget cuts, counties have been looking for ways to reduce costs wherever possible. This article highlights what counties can do to help themselves in reducing audit costs, and how they can obtain a timelier audit.

Audit Costs - Factors Out of our Control

Controlling or reducing audit costs and issuing timely audit reports are in everyone's best interest. There are factors outside of any auditor's control that affect the amount of time it takes to conduct an annual audit of a county, which also affects the audit costs. An example is the issuance of new auditing standards by the American Institute of Certified Public Accountants (AICPA).

The AICPA issued a series of new auditing standards, which consisted of Statements on Auditing Standards (SAS) Nos. 104-111, commonly referred to as the risk assessment suite. SAS 112 was also issued at this time. These standards were effective for counties for the year end December 31, 2007, audit conducted during 2008.

These new auditing standards require auditors to obtain a deeper understanding of your county's organization, environment, and internal control systems. They also require an assessment of the presence of risk and an increased amount of documentation. This increase in audit work has generally increased audit costs and the amount of time it takes to complete an audit.

In response to more in-depth audit inquiries regarding internal controls and the presence of risk, the amount of time needed and work to be performed by county staff related to the annual audit has also increased. Some counties have contracted with professionals who assist them with the work they are required to perform as part of the audit process. Others have hired new in-house staff to perform this work or are providing training for existing staff to enable them to complete the necessary functions. Still others have requested that staff from the Office of the State Auditor (OSA) provide technical assistance in preparing their financial statements. Counties incur additional costs whether they contract with a consultant, hire new staff, provide training for existing staff, or request assistance from the OSA.

Audit Costs - Factors within our Control

The OSA has been working with counties to identify ways that they can assist in controlling or reducing audit costs. The OSA developed an audit preparation checklist for counties. It identifies items that need to be prepared before an audit can proceed, and it requires counties to commit to dates of completion. When county staff have used the checklist and have delivered their work by the committed dates, they have seen a reduction in audit costs and a timelier audit.

Generally, the more internal control findings noted in your audit, the more audit work is required. Therefore, counties should appropriately respond to audit findings and correct weaknesses in internal controls.

On the Horizon

The OSA is exploring the use of remote meetings between our audit staff and counties. For some of our Greater Minnesota counties, OSA staff must travel longer distances for meetings. We are developing procedures for teleconferencing, video conferencing, and Webinars to conduct meetings with counties. These meetings will still have to meet auditing standards, and will be contingent on the willingness of the counties to replace face-to-face meetings with remote meetings. The use of remote meetings has the potential to help control or reduce audit costs and to create efficiencies for all of us.

With the passage of the American Recovery and Reinvestment Act (ARRA) in February 2009 and the influx of ARRA funds, an unprecedented level of accountability and transparency is required. To increase accountability and transparency, the Federal Office of Management and Budget made changes to the Single Audit requirements for ARRA funds. The changes will require additional work to be conducted on these funds by auditors. Additional work may increase the amount of time it takes to conduct an audit, thereby potentially increasing audit costs for those entities receiving ARRA funds.

Meeting the Challenge

A key factor to controlling or reducing audit costs is identifying factors over which we have some control. Once such factors are identified, the goal of controlling or reducing audit costs is within reach. County staff can work with OSA audit staff to be adequately prepared for the audit, and

County Commissioners can assist by supporting county staff to focus on timely audit preparation and to respond appropriately to internal control weaknesses. Over time, we will all benefit by having more cost-efficient audits.