



Building Bridges with your Auditor

By Suzie Doran, CPA

In today's regulatory environment, how can you win and build a successful relationship with your auditors? Impossible, you say? The fees are too high, attitudes range from apathetic to outright adversarial and reports take too long to issue? There is a win-win solution, but it requires companies to work with auditors.

The audit opinion specifically states that auditors "plan and perform the audit to obtain reasonable assurance about whether financial statements are free of material misstatement." The audit opinion may not have changed in the last few years; but the regulatory environment has changed commencing with the fraud perpetrated by companies such as Enron and legislation like Sarbanes-Oxley enacted to bring about transparencies to companies. This has led to increased scrutiny on companies, their reporting practices, management and the Board of Directors. The result has been higher audit fees with the increase in compliance, higher expenses to companies implementing compliance and a change in perspective on the overall reporting process.

The good news is that with the advent of Sarbanes-Oxley that nine out of ten audit committee members believe that their committees are more effective and that over half believe that they are "much more effective." This is according to the results of the 2007-2008 annual audit committee member survey conducted by KPMG's Audit Committee Institute (ACI) and the National Association of Corporate Directors. This same survey showed that only 28 percent of audit committee members were "very satisfied" they understand the process that management uses to identify and assess significant business risks, and only 21 percent are "very satisfied" with the risk reports they receive from management.

This is the same management that continues to have high levels of turnover. Liberium Research results proved that corporate management turnover in 2007 was slightly below the record levels registered for 2006, but remained very high. Despite the slight decline in top turnover there were far more significant CEO and CFO turnovers overall. According to *Forbes*, the average tenure of a CFO is about three years. Based on a 2007 study by CFO Research Studies and Tatum LLC on 170 CFOs, controllers and high level financial executives, over 86% respondents felt that the breadth of the finance function has increased over the last five years while only 49% reported an increase in resources.

These are the same culprits that haunt increasing audit fees. To build relationships with auditors that may reside at your company from a few days to weeks and months, relationships should be rooted in mutual respect and trust. Gaining respect and trust requires communication and integrity. "Sky high audit fees are often the result of poor communication, lack of adequate and qualified resources and late delivery," according to Jim Pitrat, Assurance Practice Leader of SingerLewak, a large regional accounting firm.

Although the solution seems simple, it is far from simple to execute. To establish respect and trust, auditors need to be able to build relationships with qualified executives who have the personnel to deliver on the timelines established. This means having a succession plan to deal with the high turnover. This will enable companies to continue to focus on corporate strategy and growth rather than focusing all its efforts on finding new senior executives to replace the ones that have left. The executives need to be properly staffed, so

that when issues arise, that they can be resolved through timely communications with the auditors.

With the growing complexities of financial reporting, companies need to equip its financial senior executives with the authority and power to maintain strong internal controls with proper staffing. The short term solution is to increase the burden of these executives, which results in audit firms spending more time in coordination, delaying the deadlines and issuing qualified reports. The result is higher expenses and strained relationships with your auditors. The long term solution would be to invest in management, so that audit committees can rely on them to identify business risks. The choice is yours, what decision will you make?

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