

New Risk Assessment Standards

There's an old saying that the only sure things in life are death and taxes. Accountants would argue that "change" belongs on that list as well.

Recent years have seen several changes in accounting and auditing requirements that have significantly impacted auditors and their clients. For school districts, these changes may have been most noticeable in the new financial reporting model (GASB 34), internal control deficiencies reported in management letters, and the later dating of audit reports that requires additional audit procedures extending through the report date. New auditing standards effective for your fiscal year 2008 audit will be most evident during the audit process.

Eight new "risk assessment standards" issued by the American Institute of Certified Public Accountants require a more rigorous audit process that auditors will be required to follow as part of your June 30, 2008 financial statement audit. The new risk assessment standards provide enhanced guidance on identifying and assessing risk of material misstatement in your financial statements, and they assist auditors in focusing audit procedures on those areas where risk is greatest. The standards also require auditors to obtain a much more in-depth understanding of your processes and internal controls, and to meet increased documentation requirements.

What To Expect

You can expect your auditors to spend more time evaluating and documenting your internal controls. They will be asking more questions about your district's control environment, operating risks, responses, and performance measures. They'll also be observing your procedures and controls, and inspecting more documents and records to determine whether your controls have been properly implemented.

This additional work can result in more deficiencies being discovered that increase the amount of audit work needed and that meet the criteria for reporting. Your management letter may include issues that have not been reported in the past. Furthermore, any uncorrected deficiencies must continue to be reported each year.

The demands on your personnel will also increase. Auditors will need to spend additional time with employees both within and outside of traditional "accounting" departments. At a minimum, business managers, bookkeepers and grant directors can generally expect to spend more time with auditors than they have in the past.

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What You Can Do

Cooperation is essential to a smooth audit process. There are a number of things districts can do to help:

- Respond promptly to inquiries and documentation requests.
- Expect and prepare your staff for the increased attention and testing. Assure them that they are not being singled-out or picked on because anyone suspects them of wrongdoing. Defensiveness on the part of your personnel can slow the audit process.
- Prepare or provide written internal control documentation. If your district maintains detailed written policies and procedures manuals, provide your auditors with copies. If you don't have detailed manuals, consider preparing them. The benefits of detailed manuals for the district's processes can extend well beyond the audit.

The goal of the new risk assessment standards is to increase the effectiveness of financial statement audits. However, like any change, this will require effort - by both the school district personnel and the audit team. A positive approach is the best way of dealing with this change.

To quote an unknown author - "*Change is inevitable, except from vending machines.*"

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