



## THE NIGHTMARES THAT KEEP YOUR AUDITOR AWAKE AT NIGHT

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- What's an audit nightmare?
- Inside the mind of the auditor
  - Perspective on the financials
  - Risks
  - Problems
  - Maniacal pickiness
- Common audit nightmares
  - Causes
  - Solutions
  - CPA firm practices that affect them

The background is a blue-tinted photograph. In the upper right, a silver pen lies on a notepad with horizontal lines. In the lower left, a portion of a black calculator is visible, showing several keys and numbers. The overall scene suggests a professional or academic setting.

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**What's in a  
Nightmare?**



# What is an audit nightmare?

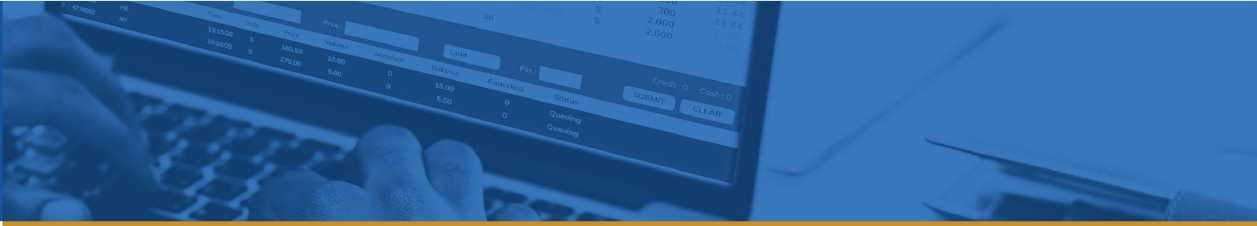
## If you're being audited, it might be:

- Extra/rushed work to get ready
- Late questions
- Missing a deadline
- Audit findings
- Billed extra

# What is an audit nightmare?

## An auditor's nightmare:

- Issuing clean opinion on misstated report
- Issuing opinion without all the work done right
- Crazy last-minute work to not miss a deadline



## The common themes:

- It went out the door wrong
- It went out the door late
- It was not fun getting it out the door
  - Extra work
  - Rushed work





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**Profiling an Auditor**



# Mindhunter: Auditor Edition

- How they look at the audit
- What scares an auditor?
- The sequel: secondary review
- The prequel: junior auditors





## There's two kinds of people in this world...



**COMMITMENT** to the present... **VISION** for the future.

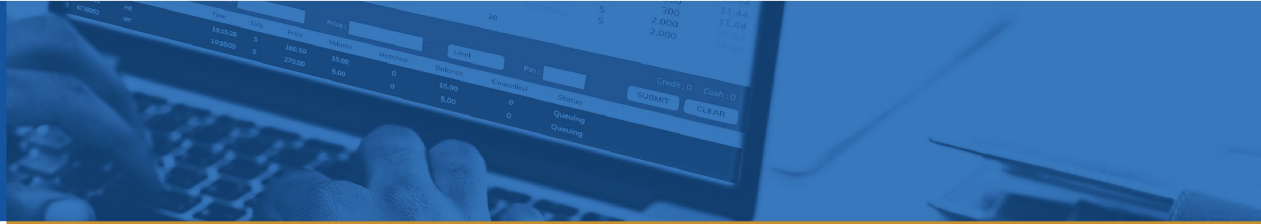


## Two basic ways most of us learned financial reporting

- ACFR-down
  - Started out looking at #s by fund and section
  - Learned the whole ACFR before learning the “why”
  - Virtually all auditors
- Budget-up
  - Started in day-to-day processing
  - Reporting emphasizes the period rather than a single date
  - Learned the business end before the ACFR

## Your auditor thinks in

- Audit sections
- Opinion units



### **FIRE/EMS - OPERATIONS**

- [-] 4000 Assets and Deferred Outflows of Resources
  - [+] 4100 Cash & Investments
  - [+] 4200 Receivables
  - [+] 4300 Due From Other Governments
  - [+] 4400 Due from Other Funds
  - [+] 4600 Capital Assets
  - [+] 4700 Inventory
  - [+] 4900 Deferred Outflows of Resources
- [-] 5000 Liabilities and Deferred Inflows of Resources
  - [+] 5100 Accounts Payable
  - [+] 5200 Accrued Liabilities
  - [+] 5300 Long Term Liabilities
  - [+] 5400 Due to Other Funds
  - [+] 5500 Unearned Revenue
  - [+] 5600 Due To Other Governments
  - [+] 5900 Deferred Inflows of Resources
- [+] 6000 Net Position and Fund Balance
- [+] 7000 Revenues
- [+] 8000 Expenditures/Expenses

| CATEGORY                      | FY 2021<br>Actual   | FY 2022<br>Current<br>Budget | FY 2023<br>Adopted<br>Budget |
|-------------------------------|---------------------|------------------------------|------------------------------|
| Salaries, Benefits, & Support | \$ 3,958,147        | \$ 4,268,571                 | \$ 4,275,283                 |
| Supplies & Materials          | 156,276             | 216,803                      | 221,850                      |
| Maintenance & Repair          | 90,601              | 100,745                      | 95,197                       |
| Contractual Services          | 102,051             | 114,587                      | 139,292                      |
| Designated Expenses           | -                   | -                            | -                            |
| Capital Outlay & Improvements | 79,230              | 13,688                       | 1,235,045                    |
| <b>Total</b>                  | <b>\$ 4,386,305</b> | <b>\$ 4,714,394</b>          | <b>\$ 5,966,667</b>          |



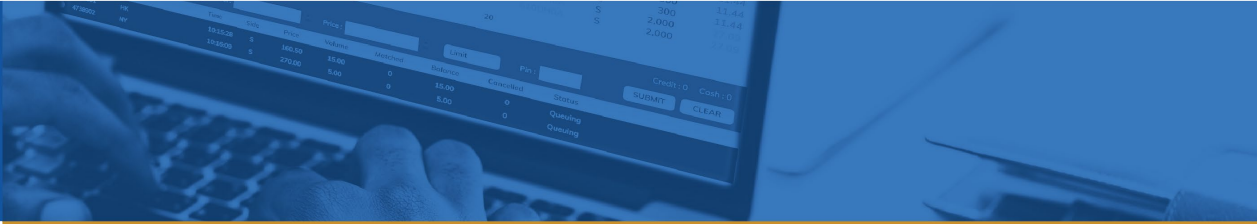
## Report on the Audit of the Financial Statements

### *Opinions*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pattillo County, Texas (the "County"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

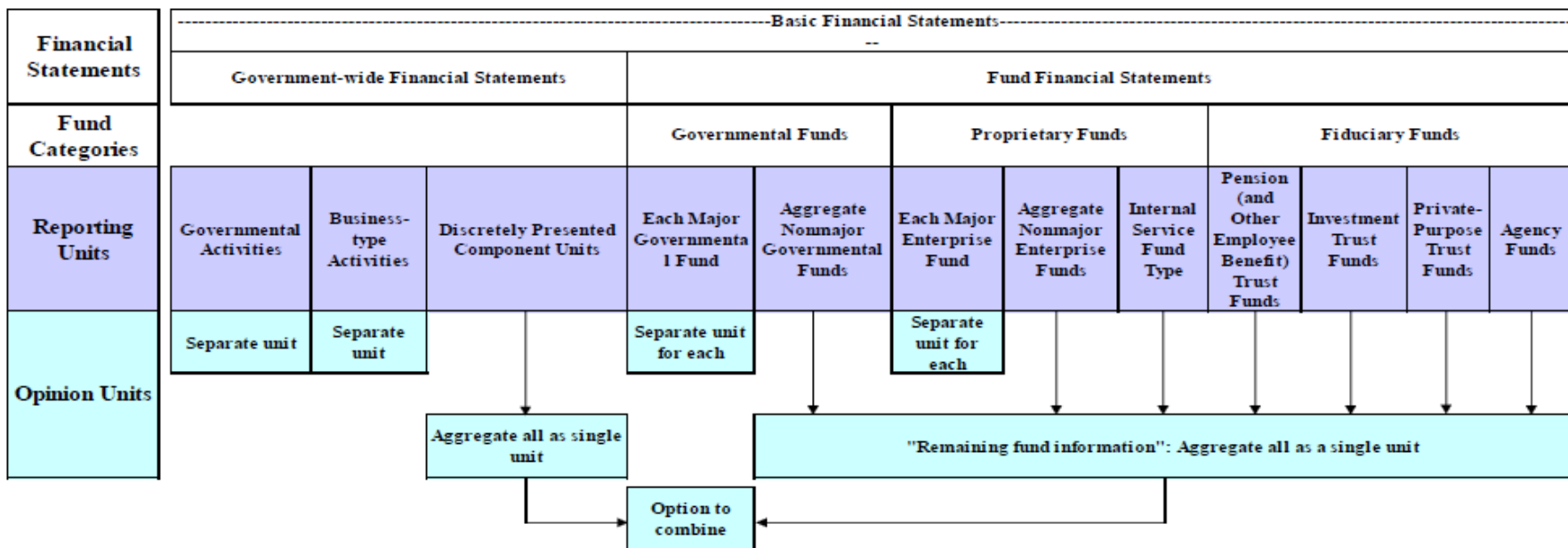
In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.





# Materiality - Auditor

## Overview of Reporting Units and Opinion Units FOR DISCUSSION PURPOSES ONLY



**Audit Materiality is based on the opinion unit**



# Why would my auditor be scared of anything? I'm the one getting audited!

- Something wrong goes out the door
- Workpapers get pulled
  - Peer review, OIG, etc.





# It all goes back to audit risk

## On the surface: problems with the books

- Have to stay independent
- Nonattest services tricky to document
  - Might mean we shouldn't have issued the audit
  - Nonattest services are a big peer review focus

# **It all goes back to audit risk**

## **The surface problem: Slow PBCs**

- Creates bottlenecks
  - Rushed work may not be good work
  - Deadlines are often arbitrary

**Which is worse: an extension or a wrong report?**



# Why is my auditor being picky? (Auditing)

- Materiality isn't the same across your books
  - Pooled items (cash, checks, etc.) have to use lowest materiality
- Some things qualitatively material
- Small things can sometimes require big documentation
  - Even if a new standard doesn't apply, we have to prove that it doesn't
  - A missed disclosure can be a big peer review problem



# Why is my auditor being picky? (ACFR)

- If we draft, the report is a reflection on us
  - Losing the GFOA award
- Small issues can lead to big questions
  - SEFA gets looked at very closely
  - “If they didn’t even get that right, what else did they miss?”



## Audit Mindhunter Season 2: secondary review

- AKA “why are you only now asking about this?”
- AAKA “why have you never asked about this before?”
- Virtually all firms will have review some length of time after the work gets done
- If it’s wrong at the 11<sup>th</sup> hour, it’s still wrong



## Audit Mindhunter, the Prequel: Junior Staff

- Experience and communication skill can vary widely
- Can exacerbate problems found in review
- Communication is key
  - Junior staff more likely to communicate complex things through email instead of talking
  - Meet with the whole audit team on key issues



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**Welcome to My  
Nightmare:  
Common Audit  
Problems**



- The Conjuring of the wrong report
- Nightmare on Balance sheet
- My Portal is A Quiet Place
- Death by 1000 ACFR Changes
- What we don't know may actually hurt us



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**Nightmare 1:  
The Wrong  
Report**

**The nightmare:** a PDF that is clearly a scanned printout of an excel sheet

*Or doesn't tie to the ending balance*

*Or is missing accounts*

*Or has the wrong date*

*Or doesn't have any detail*

## A few simple checks can go a long way

- A GL detail usually isn't what we need, but ask!
- Check the parameters
  - Everything included that s/b?
  - Can you refer to last year's?
- Confirm if you need detail or a summary
- (in most cases) check the balance yourself – does it tie to what it should?

## A Word on Excel

- We almost always want excel, CSV, or text
- Don't worry about cleaning it up yourself
  - We can help! We get lots of practice with excel



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**Nightmare 2:  
The Balance  
Sheet**

**Criteria:** virtually every balance at YE should tie to support

**The Nightmare:** some of the balance sheet does not tie to support

**Why?** Procedures over the BS are often lacking because the Budget-Down view emphasizes the income statement

*(Well, that, and also, when was the last time a board member asked you about prepaids?)*



- Cash is (hopefully) reconciled monthly
- Why stop there?
- Use the same concept for reconciling the BS:
  - Review the balance as of year-end
  - Gather support for what the balance *should* be
    - Aging report/subledger
    - Supporting calculations
  - Find out why they're different
- Make sure support is *external*, not a transaction listing



## Example: The GL Detail

|                            |                  |                  |
|----------------------------|------------------|------------------|
|                            | <b>9/30/2023</b> | <b>9/30/2024</b> |
| <b>Accounts Receivable</b> | 1,000,000        | 1,500,000        |

### GL Activity:

| Date      | Description | Debit/Credit | Balance   |
|-----------|-------------|--------------|-----------|
| 10/1/2023 | bb          | 1,000,000    | 1,000,000 |
| 9/29/2024 | billing 87  | 300,000      | 1,300,000 |
| 9/30/2024 | billing 88  | 200,000      | 1,500,000 |

### Aging Report:

| Date      | ID                   | Amount  |
|-----------|----------------------|---------|
| 9/29/2024 | billing 87           | 300,000 |
| 9/30/2024 | billing 88           | 200,000 |
|           | Total aging, 9/30/24 | 500,000 |

## The Auditor's Part:

- Basic approach is to get support and then test details
- Their requests may be very generic, esp. in first year
- Don't let them make you chase down a subledger if that isn't what you need!

|  |
|--|
| 25. AR Aging Report for unbilled utility receivable at 9/30/23 |
|--|

|  |
|--|
| 26. Subledger for Payroll Accrual at 9/30/23 |
|--|

|   |
|---|
| 27. Subledger for Landfill Closure Liability at 9/30/23 |
|---|

The background features a close-up of a pen resting on a document with a grid pattern. A dark blue semi-transparent rectangle is overlaid on the left side, containing the text. The overall color scheme is monochromatic blue.

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**Nightmare 3:  
Untimely  
Information**

**The nightmare:** We agree on a timeline and schedule the audit. We allocate our audit team based on the time needed to complete the audit. We receive half our PBC list during that time, and the remaining information has to be audited on nights and weekends in the future.

**The problem:** After that scheduled time, any unfinished work has to be worked in around the next fieldwork

**The (other) problem:** The amount of time needed to finish an area can double or triple if we don't get all the correct info at once

**The (other) (other) problem:** certain audit procedures have to be continued until the audit is finalized

**The Problem:** Audit staff are booked out months in advance based on the agreed timeline. After that scheduled time, any unfinished work has to be worked in around the next fieldwork

**The (other) problem:** The amount of time needed to finish an area can double or triple if we don't get all the correct info at once

**The (other) (other) problem:** certain audit procedures have to be continued until the audit is finalized

Okay, so what can we *do* about it?

- Review last year's PBCs to see what was finished the latest. Why?
  - Waiting on 3<sup>rd</sup> parties?
  - Labor-intensive to prepare?
  - Takes a while for you to get around to it?  
Can someone be cross-trained?



## A few tricks to being ready

- Identify items that can be completed before year-end or quickly thereafter
  - Debt schedules
  - Retirement payment reports
  - Capital assets
  - Check registers and billing registers
- For items needing 3<sup>rd</sup>-party info, get the ball rolling ASAP
- Set a timeline: start with audit week 1 and work backward

## Asking for Help

- Sudden turnover or prolonged vacancies are hard to overcome
- Your auditor can engage for some nonattest services, but they **MUST** maintain independence
- Many CPA firms offer consulting services
  - 3<sup>rd</sup> party doesn't have to be independent
  - Can prepare original documents (bank recs, accruals)
  - Can make management decisions (estimates, classification decisions)
  - Engage for a little or a lot – from capital assets to drafting the ACFR

## New GASB Standards

- If you keep it in house, take it all the way
- Handing your auditor a half-finished implementation can often:
  - Lead to the same cost as contracting it out from the start
  - Result in audit findings
  - Delay completion of the audit (we weren't planning to have to do the work ourselves)

## The Auditor's Part:

- We need a lot of stuff on day 1, but no, we don't need *everything* on day 1
- Clarify timeline when:
  - Their "priority items" is a long list
  - Their list has the same due date for everything
- The curse of giving lots of info upfront: a disorganized auditor may ask for things twice
  - Organize your files to mirror their PBC list
  - Avoid emailing lots of stuff, or at least, update your audit file with the stuff you emailed

The background features a close-up of a pen resting on a calculator. The calculator's display and buttons are visible, with numbers like 25, 28, 31, 34, 37, 40, 43, and 46 appearing on the screen. A dark blue semi-transparent rectangle is overlaid on the left side of the image, containing the text.

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**Nightmare 3.5:  
Unrealistic  
Timelines**

**The Nightmare:** It's 15 days from the Council meeting we agreed to present at. We ask for 5 more outstanding things to finish the audit and ACFR. A few days later, we receive 2 of those things and an email asking when they can have a draft

**Is the problem slow PBCs?**

**Or the expectation of remaining on that timeline?**

## Why is the deadline what it is?

- Differentiate between true hard deadlines and preferences
- Understand that there is a lead time to audit information
- Consider the cost of an error caused by a rush job



The background of the slide is a blue-tinted photograph. In the foreground, a portion of a black calculator keypad is visible, showing several buttons with numbers like 25, 28, 31, 34, 37, 40, 43, and 46. A silver pen with a black grip is positioned diagonally across the upper right portion of the image. The entire scene is overlaid with a semi-transparent dark blue rectangle on the left side, which contains the text.

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**Nightmare 4:  
Death by 1000  
ACFR changes**

## The nightmare:

We send you the draft ACFR. You email us some changes. Then you email some more changes. We send you a new draft. You email us more changes along with a \$10,000 journal entry

## Death by 1000 changes

- Pushing changes to the report can be very time-consuming
  - One number may change many places
  - Adding/removing pages changes all the page #s
  - Has to go back through review for a new draft
- If it needs changing, it needs changing, but...
  - Observe materiality
  - Try and accumulate small changes to make at once

## If you draft:

- Every new draft you give us, we have to re-check *everything*
- Trying to help you avoid questions or GFOA comments
- Clarify with your auditor expectations on:
  - Timeline of making changes and a new draft
  - If you really need to change that thing



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**Nightmare 5:  
Surprises!**

**The nightmare:** Everything is going smoothly and we're on track to finish on time. Then we get an email [*insert date of 11<sup>th</sup> hour here*] from the *client* about [*insert time-consuming problem here*]

**The idea:** Surprises = bad for you

**The audit effect:** Surprises = bad for auditor

**The problem:** Bad for you + bad for auditor = sadness



- The real cause is unknown information
- This is sometimes unavoidable, but it can also be caused by info we *knew or should have known*
- Goal: avoid problems caused by “Unturned stones”

## Some surprises you can mitigate

- Grants/single audit programs:
  - Review revenues (esp. intergovernmental) as part of year-end close. Be sure you know what it is, and that it's not a grant
  - Review GL for reimbursements netted against expenditures
  - Non-cash grants often hide at the airport
- Leases/SBITAs:
  - Extend your GL review for possible leases to include after year-end expenditures
- Legal issues:
  - Review expenditures
  - Discuss with management and department heads

## Don't forget to communicate

- Don't forget to tell your auditor about important changes. Keep a list of possible items and update it throughout the year, not just when they send the questionnaire
- Also consider communicating issues to your auditor as they occur
  - Significant Turnover
  - Cybersecurity events
  - New debt/grants

## The Auditor's Part:

- Don't let us get away with "no news is good news"
- Meetings (yuck) with audit team can improve communication with senior staff as well as client
- If auditor drafts the A(C)FR, last-minute drafts are no fun
  - Ask to review unaudited budget schedules early
  - Ask for a trial balance and AJE's ahead of the draft to review entries and reconcile numbers (hint: their entries are to *your financials!*)

The logo for PR&H, featuring the letters 'P', 'R', '&', and 'H' in a bold, serif font. The ampersand is stylized with a diagonal slash. Below the logo is a short horizontal orange line.

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The word 'Questions?' in a bold, orange, sans-serif font, positioned on a dark blue background that is part of a larger graphic overlay.

**Questions?**