

# How Will the New Auditing Standards Affect You?



The American Institute of Certified Public Accountants has issued new risk assessment auditing standards that are effective for December 31, 2007 yearend audits. These standards constitute the most significant changes in auditing standards in over two decades. The new standards require a comprehensive risk-based approach which continually reevaluates the risk of misstatement as evidence is gathered during the audit process and adapts the audit procedures to address the identified risks.

## Effect Of The New Standards

These standards will increase the number and type of procedures performed during the financial statement audit and the amount of documentation retained in the workpaper file. The effect of the new standards on each audit engagement will differ, but in general your organization should expect the following changes:

- More work will be performed to gather information and document our understanding of the business and its environment;
- More in-depth procedures will be performed to evaluate and document internal controls related to key risk areas;
- More controls may be tested to determine if they can be relied upon to reduce detailed testing;
- Work performed related to understanding the business and its environment and its internal control will most likely be performed in advance of the fiscal year-end;
- Different types of financial and non-financial data may be requested to assist in the evaluation of audit risk;
- Updating of certain procedures between the fieldwork completion date and the report release date.

Compliance with these new standards will increase the cost of performing a financial statement audit. Firms across the country are estimating 15% to 25% increases in audit fees as a result of these standards. We will be working with our audit clients in the upcoming months in an effort to find ways to mitigate these costs. There are basic things the organization can do help control the amount of the increase.

## Planning And Preparation Are The Keys

Proper planning and preparation have always been the keys to completing the audit in an efficient and timely manner. Planning and preparation will be even more important this year for both the entity and the auditor. In certain instances, the work related to understanding your organization, its environment and its internal controls will need to be performed in advance of your year-end. Here are some suggestions to help your organization prepare for this year's audit:

- Document the organization's processes;
- Document internal controls in a detailed narrative or flowchart;
- Identify and assess risks that could affect the accuracy of the financial statements;
- Review compliance with controls over authorization of transactions;
- Define and document individual duties and responsibilities;
- Review individual responsibilities for proper segregation of duties;
- Consider departments outside of accounting (sales, operations, IT, HR, etc.) that could have an impact on the accuracy of the financial statements;
- Stress the importance of internal control and compliance with procedures.

## How Will You Benefit?

The goal of these new standards is to provide a more effective audit process which may in turn strengthen the integrity and credibility of the financial statements to the users. The most important benefit could be derived from the renewed focus on the organization's internal controls. Internal controls not only help ensure the accuracy of financial reporting but can help an organization achieve its performance and profitability goals and prevent loss of resources.

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