

Selecting an External Auditor

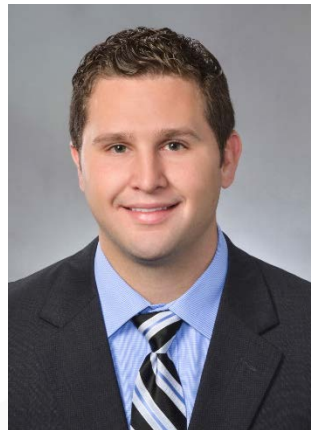


PRESENTED BY: NATHAN J. FOX, CPA | SENIOR MANAGER
ANDREW L. QUINNETTE, CPA | MANAGER

INTRODUCTIONS



Nathan J. Fox, CPA
Senior Manager
Indianapolis, Indiana



Andrew L. Quinnette
Manager
Indianapolis, Indiana

BKD CPAS & ADVISORS



- Founded in 1923 – Baird, Kurtz & Dobson
- 38 offices in 17 states
 - Stretch from Utah to New York
- Headquarters: Springfield, MO
- Engagements in all 50 states



OVERVIEW

- Understanding the External Audit Process
- Requests for Proposal
- Evaluating the Proposals & Making the Selection
- Ongoing Evaluation



EXTERNAL AUDIT PROCESS

WHEN IS AN AUDIT REQUIRED?

- Will vary by credit union & is dependent upon
 - Charter type
 - State law
 - Share insurance provider
 - Examiners / regulators



PLANNING PHASE – RISK ASSESSMENT

- Test of controls for design effectiveness
- Fraud interviews
- Inquiry & analytics
- Setting materiality
- Information gathering & risk assessment process

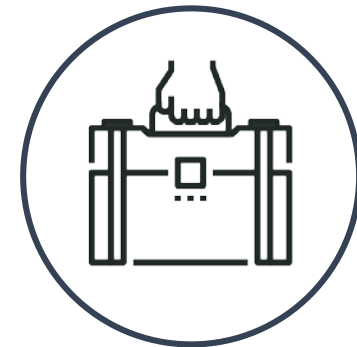


FIELDWORK PHASE – DETAILED TESTING

- Review of significant estimates (allowance for loan losses)
- Substantive audit procedures
 - Confirmations
 - Key item testing
 - Sampling
 - Vouching & tracing from reconciliations
- Unusual transactions
- Proposing or recording audit adjustments

FINAL REPORTS

- Auditor's Opinion
 - Unmodified
 - Qualified
 - Adverse
- Management Letter
- Communication to Governance
- Management Representation Letter





REQUESTS FOR PROPOSAL

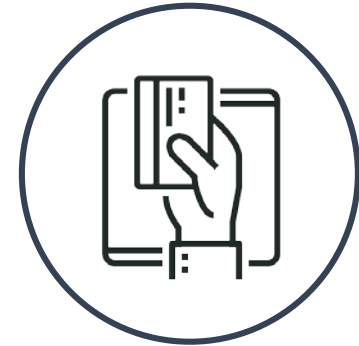
WHAT IS A REQUEST FOR PROPOSAL?

- A request for proposal (RFP) is a document sent to qualified CPA firms requesting a quote on audit services
- Not required, but highly suggested
- Which firms & how many?
- Types of services



ITEMS TO INCLUDE IN THE RFP – BACKGROUND INFORMATION

- Background information about the institution
 - Total assets
 - Loan portfolio breakdown
 - Information technology considerations
 - Core operating system
 - Other systems to consider
 - Regulators
 - Credit Union Service Organizations



DETERMINE POINT OF CONTACT AT CREDIT UNION

- Sends RFP to CPA Firms
- Knowledgeable of the Credit Union's history
- Understand the Credit Union's needs
- Answers initial questions or services being requested by CPA Firms
- First impression

ITEMS TO INCLUDE IN THE RFP – REQUIRED SERVICES

- What services should the CPA firm consider in their proposal?
 - Issuing an opinion on the fairness of presentation of the financial statements in conformity with general accepted accounting principles
 - Number of years to propose on
 - Single year vs. multi year proposals



ITEMS TO INCLUDE IN THE RFP – REQUIRED SERVICES

- What services should the CPA firm consider in their proposal?
 - Services in conjunction with the Audit
 - Housing & Urban Development (HUD)
 - Member verification
 - Other services to consider
 - Loan review
 - Employee benefit plan audit
 - Internal audit
 - Compliance
 - Information technology



ITEMS TO INCLUDE IN THE RFP – CPA FIRM EXPECTATIONS

- Important to set expectations of the external audit process
 - Committees expectations
 - Auditor pre & post audit communications
 - Examples:
 - An exit conference, when applicable, with the Finance & Supervisory/Audit Committees to discuss the Management Letters, Financial Statements & Peer Benchmarking analysis
 - Provision for at least fifteen copies, for subsequent distribution, of audited financial statements for the Credit Union



ITEMS TO INCLUDE IN THE RFP – INFORMATION TO OBTAIN ABOUT CPA FIRMS

- Experience
 - Qualifications
 - Experience in servicing Credit Unions
 - Number of Credit Unions serviced in your asset range
 - Geographical considerations
- References
 - Consider having the CPA firm provide references, including:
 - Name & location
 - Size
 - Contact information

ITEMS TO INCLUDE IN THE RFP – INFORMATION TO OBTAIN ABOUT CPA FIRMS

- Firm's understanding of management & the Credit Union
 - Independence considerations
 - Current or past relationships with the Credit Union
 - Knowledge & experience with IT systems (Core System)
- Audit staffing
 - Partners, Senior Managers/Directors & In-Charges involved in the audit
 - Biographies & descriptions of roles for the key players



ITEMS TO INCLUDE IN THE RFP – INFORMATION TO OBTAIN ABOUT CPA FIRMS

- Other information to obtain
 - Firm's policy on making audit workpapers available for review
 - Examiners &/or Committee
 - Professional liability insurance
 - Average billing rates
 - Educational conferences



ITEMS TO INCLUDE IN THE RFP – CPA FIRM AUDIT APPROACH

- Audit approach considerations
 - Firm's audit approach
 - Timeliness of audit
 - Number of staff
 - Staffing levels & continuity of staffing year-to-year
 - Involvement of partner/managers
 - Approach for auditing the allowance for loan losses
 - Completion of audit, including exit meetings

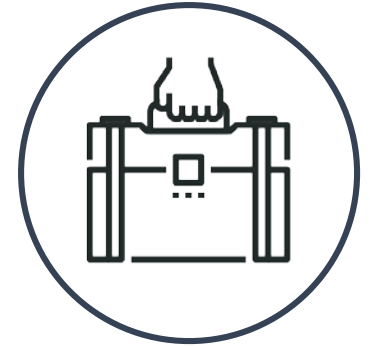


ITEMS TO INCLUDE IN THE RFP – FEES CONSIDERATION

- Fees consideration - What should the quoted fee include
 - Travel & out-of-pocket expenses
 - Start-up costs
 - Attendance at committee meetings
 - Pre & post audit presentation
 - Calls & inquiries during the year

RFP CONSIDERATIONS – SUMMARY

- Not a “one size fits all” approach
 - Information gathering
 - What information does the committee & management want?
- Be specific



RFP EXERCISE

Take a moment to perform the following:

- Read the example RFP handouts
- Determine who is the main contacts at your Credit Union to facilitate the RFP with CPA Firms
- Determine the three most important items that would be included in your RFP



EVALUATING THE PROPOSALS & MAKING THE SELECTION

EVALUATING THE PROPOSALS

- We gathered all of this information – now what
- Who are the decision makers?
 - Executive management
 - Ad hoc committee
 - Ultimately, committee's decision
- What's important to the Credit Union?

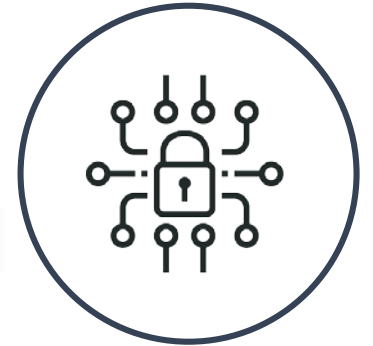


EVALUATING THE PROPOSALS

- Proposal Outline
 - Executive Summary
 - Engagement Team
 - Qualifications of the Firm
 - Fees
 - References
 - Experience
 - Service Description & Audit Approach

EVALUATING THE PROPOSALS

- Narrow down the decision
 - Meetings with management, accounting department
 - Meetings with committee chair
 - Make initial cuts after first round of meetings
- Presentations to the committee
 - CPA firms come to a committee meeting & present
 - Important process for the committee to become comfortable with the CPA firms



EVALUATING THE PROPOSALS

- Scorecards
 - Consider using a quantitative analysis to evaluate the firms
 - Value – Assessment of value expected compared to dollars & time
 - Expertise – Assessment of knowledge, experience, skills & abilities
 - Comfort level – Assessment of how well the auditors will work together with Credit Union management & the committee
- Qualitative considerations as well



PROPOSAL REVIEW EXERCISE

Take a moment to perform the following:

- Read the example Proposal handouts
- Determine who are the decision makers at the Credit Union
- From your perspective, determine the three most valuable items to include in the proposal

MAKING THE SELECTION

- We made our selection – now what
- Engagement Letter
 - Typically CPA firm will send final engagement letter before beginning their work.
 - Be sure all significant terms of the engagement are outlined in a formal, signed engagement letter



MAKING THE SELECTION

- Reviewing the Engagement Letter
 - Specify the terms, conditions & objectives of the engagement
 - Specify the engagement fees
 - Timely delivery of the audit report within 120 days from period end
 - CPA Firm shall deliver to the Supervisory Committee a written report of the audit
 - Retention period of CPA Firm audited workpapers
 - CPA Firm agrees to permit the regulator to review CPA Firm audited workpapers
 - Typically engagement letter must be signed by a member of the Supervisory Committee & a member of management



ONGOING EVALUATION

ONGOING EVALUATIONS

- Continued due diligence on an ongoing basis
 - Is audit being performed timely?
 - Any extra billings to consider
- Examiners will sometimes encourage RFP/rotation of external audit firms. This is not required by regulations
- Not required to obtain bids every year
- Rotation of audit partner – SEC rules only



ONGOING EVALUATIONS

- Management's Evaluation
 - Skills, knowledge & expertise
 - Timeliness of responses
 - Quality of audit
 - Was the predetermined timeline met?
- CPA firm audit quality report
- CPA firm peer review



ROLE OF GOVERNANCE IN AUDIT PROCESS

- Maintain tone at the top for the credit union
- Hold management accountable for addressing any issues identified during the audit process
- Read final reports & have communication with auditors
- Ask questions!



ROLE OF GOVERNANCE IN AUDIT PROCESS

- Sample questions for the committee to ask the auditors after the audit:
 - Was management & the accounting department cooperative & forthcoming with requested information & documentation?
 - How do our accounting policies, internal controls & procedures compare to other Credit Unions?
 - Did the management team follow suggestions noted in prior audits?
 - Are there any matters or future accounting pronouncements that should be brought to the committee's attention?



ROLE OF GOVERNANCE IN AUDIT PROCESS

- Post audit review
 - Consider creating an assessment to be completed by committee members
 - Is our auditor doing a good job for us?
 - Are we doing a good job managing our audit?





CONCLUSION

CONCLUSION

- Understanding the External Audit Process
- Requests for Proposal
- Evaluating the Proposals & Making the Selection
- Ongoing Evaluation

Questions?

Nathan Fox | 317.383.4208 | nfox@bkd.com

Andrew Quinnette | 317.383.4247 | aquinnette@bkd.com

Thank You!

bkd.com/FS | [@bkdFS](https://twitter.com/bkdFS)

