

Pride and prejudice or first impressions

- Are auditors from Venus and clients from Mars?
- What do auditors really want?
- Why do they seem so hard to shake off?

The perception gulf – how auditors see themselves



The perception gulf – how clients see auditors



Or perhaps?



What's the point of audit?

????

We want to shift the dial by ...

- Shedding some light on what auditors do ...
- Explain why we do some of the (sometimes inexplicable) things auditors do ...
- Share some examples of notable practice ...
- Hear from you on what's worked and not in your experience ...

Preparing for an audit visit – the five Bs

- Be proactive – share timetables!
- Be available – don't schedule audits at the same time as holidays!
- Be prepared (to discuss accounting policies and technical stuff in advance of fieldwork visits)
- Be open – about where you have made judgments and when things are uncertain
- Be focussed – know what matters (and your own materiality judgments)

Preparing for an audit visit – the room...

- It matters! Your audit team may spend a lot of time here
- Think about what they'll need to access – e.g.
 - Decent wifi connection (check it works ahead of the visit and is compatible with your auditor's systems)
 - Read-only access to systems
- Is it anywhere near finance?
- Accessibility, health and safety etc.

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Financial audit evidence

- Auditing standards require that we obtain 'sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion'.
- How do we get that evidence?
 - We test whether internal controls are effective;
 - We model costs or income using independent data; and
 - Look in detail at samples of individual transactions and the evidence supporting them.

Financial audit – ‘assertions’

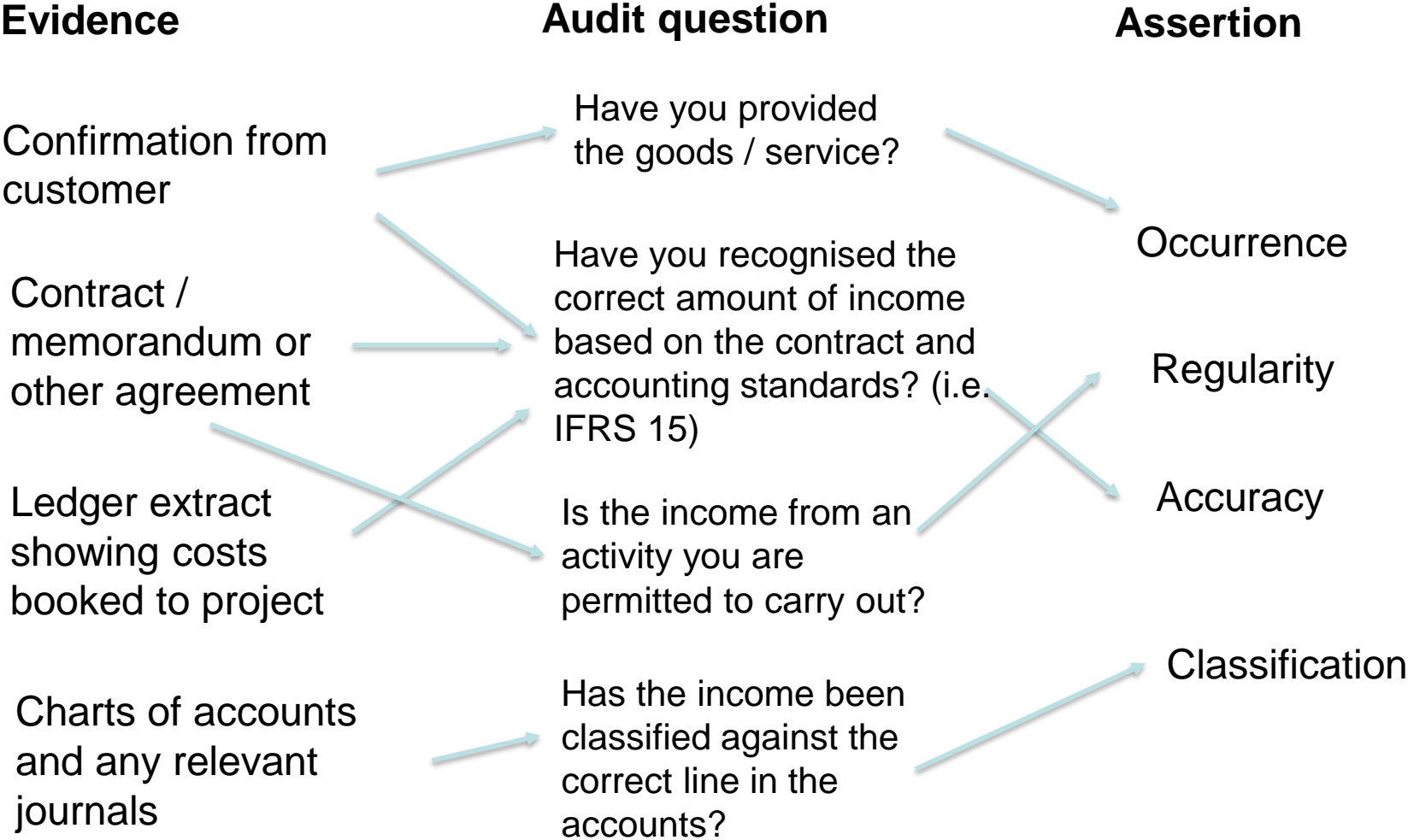
Transactions for the period under audit:

- occurrence
- completeness
- accuracy
- cut off
- classification
- (+ sometimes regularity and propriety)

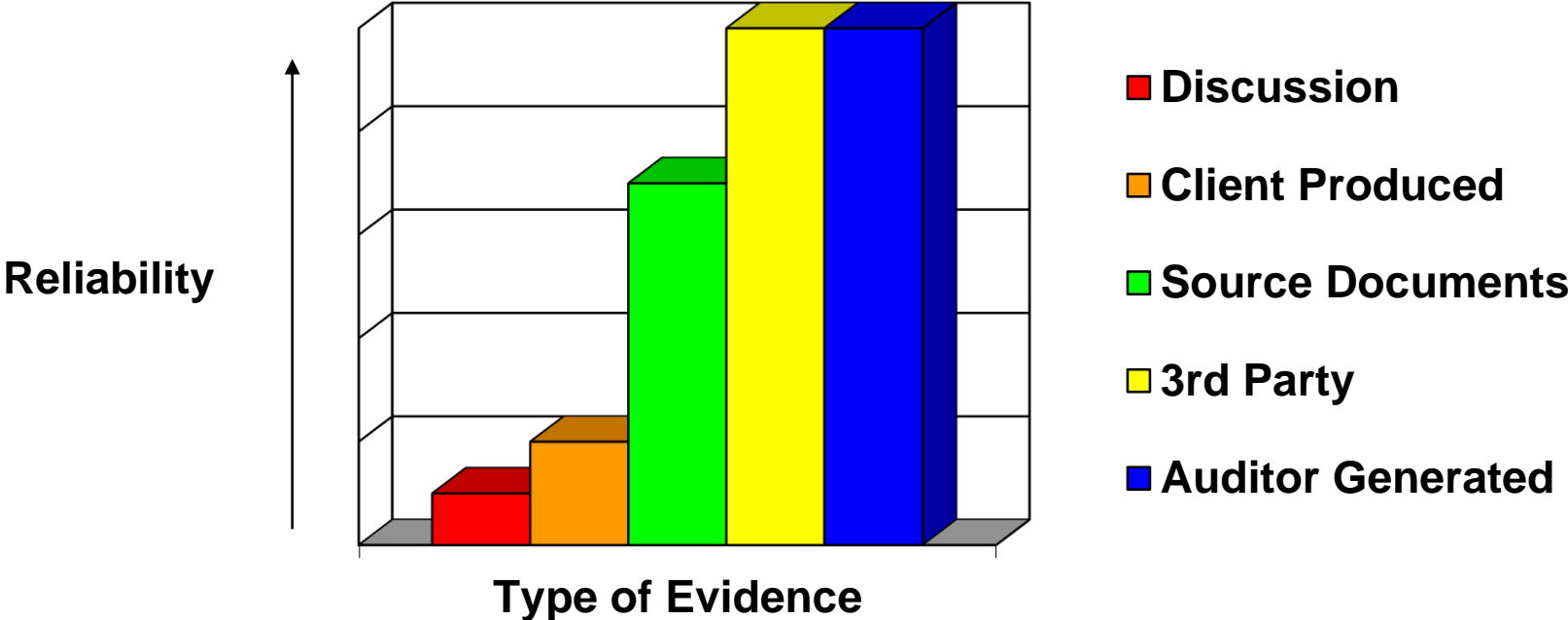
Balances at the period end:

- existence
- rights and obligations
- completeness
- valuation and allocation.

Example – auditing income from a cost-plus contract



How reliable is the evidence?



Examples of evidence – Accounting estimates

- You might need to make accounting estimates in areas such as accruals, accrued income, depreciation (via the expected life of an asset) and provisions
- The evidence we need depends on the materiality, complexity or frequency of the estimate.
- We need evidence that the assumptions and data used are reliable and unbiased.

Examples of evidence – Accounting Estimates

Evidence to support assumptions made and data used could include:

- external data – e.g. ONS / OBR for inflation rates and forecasts
- externally produced scientific reports
- view of experts within the business
- legal precedent / advice
- information in contracts
- previous experience of costs incurred or income received
- data from other parts of the health sector or government
- public announcements – e.g. new policies

Examples of evidence - Journals

The key question - why did you need to post the journal?

(part of a business process, to apportion costs, to correct errors or to adjust an accounting estimate etc.)

This drives what evidence we need to see – for example:

- bank statements showing transactions which need to be accounted for within the ledger
- An invoice and the ledger records showing where it had been originally posted
- Spreadsheet calculations

Evidence pitfalls to watch out for

- Know who holds the most up to date information for a transaction, balance or income stream. Where is it stored?
- Spreadsheets alone are very rarely enough. It's really helpful to reference where data in them comes from and what assumptions you have used.
- Watch out for circular evidence, e.g. ledger transactions as evidence to support a ledger balance made up of those transactions.
- If you use a spreadsheet model – make sure to check your assumptions are still valid. Last year's information might not be a useful guide to this year.

General Guidelines

- We only require information that should already have been required to initiate, undertake and complete a transaction.
- Make sure that the evidence corresponds with the transaction sampled. If it doesn't, show us how the figures reconcile.
- Take a step back, and ask whether the information you have meets our requirements.
- Review the quality of the evidence you have before you submit it for audit – and get in touch if you have any concerns.

Why are the accounts important?



What makes a good quality account? (and an easy audit)

- Professional approach to understanding accounting requirements – don't ignore and hope the auditor's don't ask about it!
- Take time where needed, but make sure to plan
- Review from the point of view of the reader, not the accounts preparation team
- Engage your board and NEDs – use their experience?
- Take pride in your work!

Success will look like this...



Instead of this...?



Thank you



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