

WHITEPAPER

A Pathway to a Productive Busy Season

Gearing up for - and with - interim audit procedures

YOUR GUIDE TO LEVERAGING AND EXPANDING INTERIM
PROCEDURES FOR A HIGH-PERFORMANCE AUDIT BUSY SEASON.

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Introduction

Public accounting firms are navigating the many challenges facing the profession, an environment inherently susceptible to constant change in people, processes, and technologies. The demands of the auditing profession pause for no one. Firms are tackling the pressing need to find the right talent, striking a balance between staff demands for a 40-hour work week, client expectations, and ever-increasing regulatory obligations. Combined, these issues are compromising the quality and reliability of audit outcomes. As a result, deficiencies in audit quality cost firms not only time, money, as well as client and employee satisfaction, but they can have a significant negative impact on a firm's brand and reputation.

A BEACON OF HOPE

Amidst this challenging landscape, interim audit procedures emerge as a guiding light of stability, a key weapon in an audit partner's arsenal that, if performed correctly and integrated with a flexible workforce solution, significantly enhances the quality and reliability of audit outcomes.

In this guide, we will explore the following:

- The importance of relevant and effective interim audit procedures
- The role of interim audit procedures in setting the stage for a highly productive, quality-focused, and profitable busy season
- Simple steps to drive success.

Well-planned and executed interim audit procedures, in combination with effective talent management, will enhance audit quality, reduce costs, and contribute to the overall success of your firm.



INCREASED COMPLEXITY OF WORK AND STAKEHOLDER SCRUTINY:

- In 2021, 55% of audits had one or more deficiency, up from 44% in 2020
- 33% of reviewed audits had one or more deficiencies related to obtaining sufficient and appropriate audit evidence to support the firm's audit opinion, up from 29% in 2020.

- *The Public Company Accounting Oversight Board (PCAOB) 2021 investigation*

“The number of actions involving accounting and auditing enforcement initiated by the SEC in FY 2022 increased by 55% from FY 2021.”

- *Cornerstone Research | SEC Accounting and Auditing Enforcement Activity—FY 2022*

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The benefits of successful interim audit procedures

IT'S SIMPLE:

Interim audit procedures are an essential part of the overall audit process. They involve an examination of an organization's financial records and internal control procedures before the year-end audit.

The ordinary flow of interim audit procedures involves planning, risk assessment, a testing and review phase, and finally, reporting. Reporting at interim audit procedure stage is different to the final audit, and typically includes the following:

- A summary of findings
- Recommendations based on the summary of findings
- Expected impact of risk assessment and significant unusual transactions on the final audit.
- An assessment of the company's system of internal controls, together with any identified weaknesses or deficiencies and the consideration of how those findings impact year-end procedures.

EARLY IDENTIFICATION OF ISSUES

Well-designed interim audit procedures can help an auditor gain a better understanding of their clients. This allows for early risk identification and mitigation, which can prevent minor issues from becoming major problems down the line (no last-minute surprises). It enables auditors to strategize effectively and place emphasis on areas that require attention, ahead of the final audit. Additionally, this enables improved planning and resource allocation for the year-end audit.

Bring me good news but bring me bad news faster.

TESTING CONTROLS

In certain organizations, one of the key objectives of interim audit procedures relates to control testing procedures. Controls tested generally include, but are not limited to:

- IT general controls - access, change and IT operational controls
- Application controls - input, processing, and output functions of computer applications
- Manual preventative, detective, and monitoring controls – such as reviews, approvals and reconciliations.

Testing is crucial as it evaluates a company's control environment and its ability to prevent financial misstatements - simply put, can an auditor rely on the prevention and detection controls during the audit? Understanding this is a key step in the development of the audit strategy and on the amount of additional work that is required to be performed by the auditor.

WHAT THIS MEANS FOR AN AUDIT FIRM:

-  A more balanced distribution of work throughout the year
-  Greater quality work product
-  Cost saving due to less rework and efficiencies gained
-  Lower risk of regulatory findings and penalties
-  Greater client satisfaction and retention
-  Elevated brand and reputation of the firm

“Interim audits are associated with a shorter audit time lag in final audits and a lower restatement risk of the audited annual reports. The shorter audit time lag suggests that final audits are completed more efficiently, while the lower restatement risk indicates that final audits are more effective in dictating material accounting misstatements”

*Emerald Insights; Asian Journal of Accounting Research: Volume 8 Issue 1;
An examination of the association between interim audits and final audits*

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Interim and final: a symbiotic relationship

Successful interim audit procedures set the stage for a productive busy season. By identifying and addressing potential issues early in the process, interim audit procedures can reduce the workload during the busy season and ensure a smoother and more efficient audit process. This symbiotic relationship is the by-product of well-planned and executed interim audit procedures.

By providing a solid foundation for the year-end audit, interim audit procedures contribute to a seamless final audit stage. They enable auditors to conduct a comprehensive and quality-driven final audit, ensuring that all financial statements present a true and fair view of the organization's financial status and operations.



OBSERVED SYNERGIES:

Client retention: Proactive interim audit procedures allow for efficiency and attention to detail that can significantly enhance client satisfaction - getting your firm that 5/5 rating - and, of course, enabling client retention.

Net income per partner: Interim audit procedures that are thoughtfully and successfully executed drive the ability to pre-empt significant changes to the audit plan and timeline and can reduce the cost and time spent on the final audit. This efficiency can lead to an increase in net income per partner, enhancing the overall profitability of the audit firm. By way of example, many of the largest firms expect audit teams to spend upwards of 35-40% of total audit hours during periods *prior to the balance sheet date*.

Time to address matters: Interim audit procedures provide more time to address issues, allowing auditors to identify additional risks and related audit responses and to rectify any discrepancies or errors before the final audit. This proactive approach can lead to a more accurate and reliable final audit. It also allows for sufficient time to be spent on consultation with subject matter experts relating to complicated and other material matters. An additional benefit is a more balanced workload and employees operating at their peak level, which translates into fewer instances of burnout and overall improved employee satisfaction. Bear in mind – a happy employee is a productive and profitable employee.

Reduced risk of regulatory findings: Interim audit procedures can help reduce the risk of adverse regulatory findings by ensuring audit quality is of a much higher standard. By having a deeper understanding of the client and its significant classes of transactions early, auditors can mitigate the risk of adverse regulatory findings and penalties and the related negative impact on brand reputation.

CLIENT CENTRICITY:

Enhanced decision-making ability of clients:

Interim audit procedures provide clients with timely and accurate financial information, enhancing and improving their decision-making ability. By identifying and addressing audit matters early, clients can make informed decisions, take corrective actions promptly and help ensure that any areas of concern ahead of the final audit are taken care of, resulting in a high quality end product as well as less overall pressure on the client during the year end reporting period.

Lesser cost of the final audit: A time and resource reduction on the final audit leads to cost savings - not to mention a significant reduction in unforeseen overrun charges! A smoother, more efficient audit process reduces the need for additional, unplanned audit resources, which can quickly escalate costs. In essence, an effective interim audit process is an investment that pays dividends in the form of a more cost-effective final audit.

“The whole is greater than the sum of its parts.”

- Aristotle

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Gearing up for success: what should I be doing?

The significance of interim audit procedures in the overall audit process cannot be overstated. As we've explored in this paper, they provide an opportunity for auditors to gain a deeper understanding of the organization's internal controls, identify areas of risk, and plan the year-end audit response more effectively. Naturally, a proactive approach is best. But what are the next steps?

01 CLIENT BUY-IN

Client personnel are integral to the audit process. Part of "Day-1 Readiness" is having the client understand the benefits, need, scope, and timing of interim – to avoid the client wondering why the auditors are knocking at their door. The relationship between firm and client should not be adversarial, but should rather be a partnership aimed at achieving the common goal of an effective and efficient audit.

Have you ever started an audit only to hear that a key client staff member is out of office for three weeks? Or had an uncomfortable discussion around invoicing for the completed audit? For peace of mind and ultimate project success, there needs to be clear alignment and agreement on the following areas:

Timelines: Commit to a clear schedule for the interim audit procedures, including start and end dates, deadlines for providing audit information, and dates for meetings or check-ins.

Scope: Define the areas and processes that the interim audit procedures will cover. This could include specific financial statement line items, individually significant and/or unusual transactions, or internal controls.



Fees: Establish a clear understanding of the audit fees, including what they cover and when they are due. This helps avoid any surprises or disputes later on.

Expectations: Confirm key client personnel availability for discussions, preparing and submitting necessary documentation in advance, and responding promptly to auditor requests.

Obtain an understanding of material events impacting the client's business: This could include new business lines, acquisitions, changes in key personnel, adoption of new accounting standards, or changes in the regulatory environment.



02 STRATEGY DISCUSSION:

Few things derail an audit quicker than unexpected changes. As an example, newly identified - or worse, unidentified - significant risks can have a large impact on audit timing as well as increased costs due to rework. Additionally, changes in audit management can bring a different view of the client and the audit approach, leading to potential misalignments and confusion over the dynamics of the engagement.

To effectively address change in our clients' business environments, we recommend:

Identify the change: Spot changes in people, process, and technology areas early on and consider their impact on the audit procedures. For example, significant merger and acquisition activity within the audit client's company or a client adopting a new payroll system.

Identify and mitigate change risk: Pinpoint potential risks and focus areas and modify your audit response and plan accordingly. For example, this would include obtaining specific technical expertise, planning for additional time as well as securing audit staff.

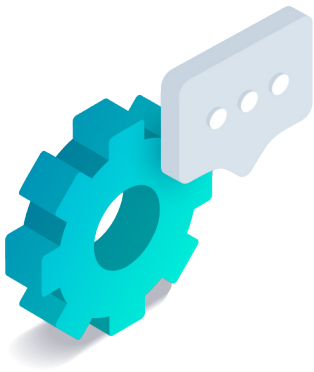
03 SETTING THE TONE:

Once the audit strategy has been defined, it's important to pay attention to the softer elements of the engagement:

Expectations of the client: Emphasize the need for a 'partnership' mentality, which brings the audit team and the client together. The outcome of this is active engagement and cooperation, which drives a successful and efficient audit process.

Expectations of the team: Set expectations for deadline management through sufficiently disaggregated project milestones.

Instill a culture of trust, transparency, and vulnerability: This allows for team members at all levels to raise points of concern openly and enables these to be resolved in a timely manner.



04 THE TECHNICAL STUFF:

- **Approach to setting audit materiality:** Adopt a prudent approach, basing materiality on actual results and relevant benchmarks, not forecasts or prior year measures. A common pitfall is setting materiality levels too high for interim audit procedures which may result in significant rework during the final audit.
- **Risk and account analysis:** Spend time upfront consulting with your client – no one knows their business better than they do. Consider the nature of the account as well – not merely its balance. And remember, account significance may change by the time an auditor reaches the final audit.
- **Trust, but verify:** With an active mindset of professional skepticism, always question and validate information, maintaining a critical mindset for a thorough audit. Remain open to other potential areas of focus or concern that may want to uproot ahead of the final audit.

05 BUILDING YOUR TEAM

The final ingredient

There's a profound truth in the saying, 'The strength of the team is each individual member. The strength of each member is the team.' In the realm of auditing, this couldn't be more true. A disjointed team, lacking cohesion and continuity, can lead to a sea of miscommunication and inefficiency, undermining the very essence of a successful interim and final audit.

To transform this potential Achilles' heel into your audit's most potent asset, consider these steps:

- **Secure staff:** Handpick a diverse mix of skills within your team. Ensure that industry specific knowledge is sufficiently captured in your team, along with appropriate levels of experience. Secure them well ahead of the audit, fostering a sense of ownership, commitment, and responsibility that transcends the individual level.
- **Invest in your team:** Embrace the reality that setting up a well-functioning team requires time and resources. Don't see it as a cost, but an investment - a cornerstone for the smooth and efficient execution of the audit that will bolster both quality and engagement utilization. Performing interim procedures allows for staff training as well as getting acquainted with the client to occur well before the rush of busy season.
- **Champion continuity:** The baton must pass seamlessly from the interim to the final stages of the audit. Preserve the team's continuity to ensure invaluable insights aren't lost in transition or handover, enhancing the overall efficacy of the audit as well as the relationship with the client.

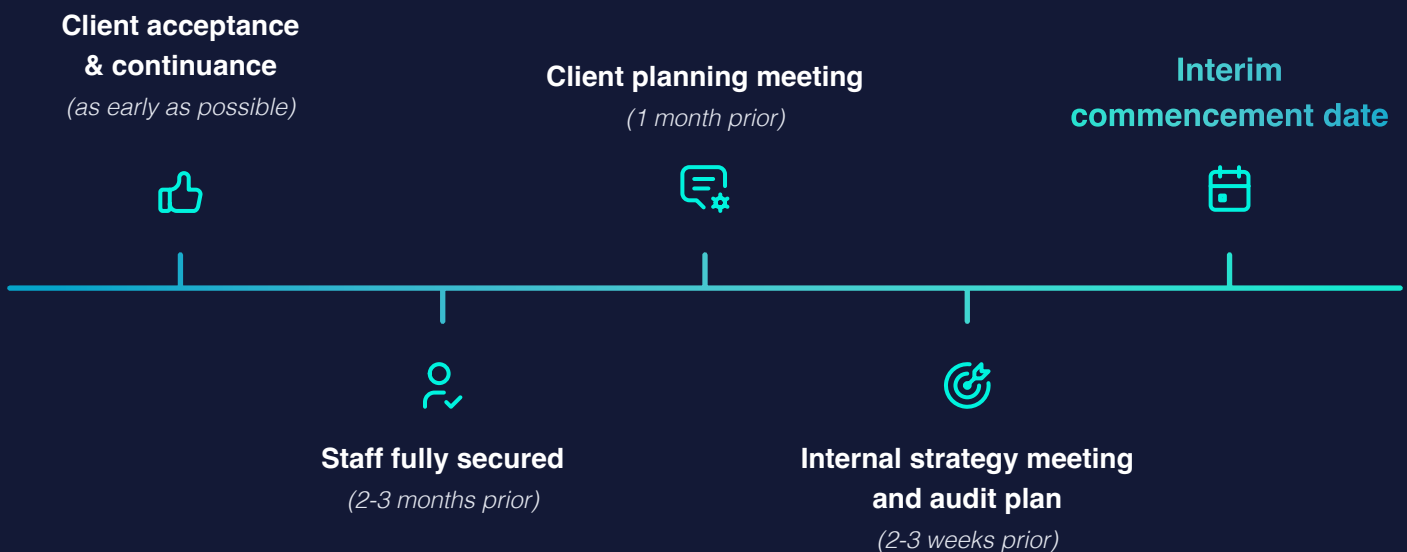
By adhering to these steps, you're not just building a team; you're orchestrating a symphony of expertise, ready to execute a successful, high-performing audit engagement – during interim audit procedures and final audit periods.

05

(Aud)it's about time

What does the ideal timeline look like for planning effective and efficient interim audit procedures? Here is a suggested timeline based on observed practices - note, however, that the timeline will be affected by the size of the audit client, the size of your firm, as well as the complexity of the engagement.

GENERALLY RECOMMENDED PROJECT TIMELINE:



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Conclusion

Four essential elements converge to shape a path to a successful interim audit procedures and final audit: client buy-in, audit strategy, setting the right tone, and the strength of the team.

Client buy-in establishes transparency and trust through clear agreements, proactive identification of unusual transactions, and open communication. The audit strategy discussion adapts to changes, employing proactivity, risk management, and alignment to navigate challenges. Setting the right tone emphasizes client engagement, team accountability, and trust, fostering efficiency and effectiveness. The strength of the team fuels success, secured through diverse talent, investment in team development, and continuity throughout the audit stages.


By deploying these techniques, well-planned and executed interim audit procedures, in combination with effective talent management, will enhance audit quality, reduce costs and contribute to the overall success of audit firms.


“What happens in the fourth-quarter of a football game, and the ultimate win or loss, is largely a function of the game planning done earlier in the week and the first three-quarters of the game. The results of audits are similar – the successful, quality-driven, profitable audit is largely a product of the planning and interim audit procedures that are thoughtfully and intentionally designed and executed.”


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the future of audit

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