

**AGA-Austin Chapter
Program & Luncheon Meeting Minutes
Meeting Date: February 9, 2012**



The meeting was called to order at 11:55 a.m.

Regular Business

Debi Weyer opened the meeting by stating that even though officially retired, she will still be involved in the Chapter activities.

Paul Morris, President-Elect, presented Debi Weyer with a beautiful bouquet of fresh cut flowers and expressed his and the Chapter's heartfelt appreciation for her over 15 years of dedicated service to the Chapter and 24 years of service to State government.

Program Speaker

Debi Weyer introduced Leita Hart-Fanta, the speaker for the event.

Leita served for five years as an auditor and a communications specialist with the Texas State Auditor's Office. Leita led the team that produced a national award-winning report summarizing the financial condition of the State.

Leita has owned and operated AuditSkills, a training and professional development company, since 1995. She has conducted and developed courses on balanced scorecard management, audit supervision, financial analysis, fraud, budgeting, business writing, finance for non-financial managers, cash flow, presentation skills, government auditing standards, and performance measurement. She founded Yellowbook-CPE.com--a site for self-study CPE for governmental auditors--in 2009.

Leita is a graduate of the University of Texas at Austin with a bachelor's in business administration. She is a Certified Public Accountant, Certified Government Financial Manager, and Certified Government Audit Professional and serves on the conference planning committee of the Texas Society of CPAs. Leita is a technical reviewer for the AGA's Certificate of Achievement in Service Efforts and Accomplishments Reporting.

Leita is an experienced facilitator, having led over 800 full or multi-day seminars. She has also keynoted numerous conferences, developed over 25 distinct courses and speeches, and is the author of two books.

The New Yellow Book

In 2011, the AICPA published the latest revision to the statements on auditing standards. Over the past decade, the AICPA has struggled with auditor independence, which is the major focus of the revisions in this edition.

Arthur Andersen's downfall after the Enron debacle was a result of the fact that the audit firm performed simultaneously all three of the following for Enron:

- Installation/implementation of computer systems
- Setting up internal controls structure
- Performing consulting services

And as a result, auditor independence was not only compromised, but non-existent. Independence comprises the following:

- Independence of Mind, which is the state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- Independence in Appearance, which is the absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

The New Yellow Book introduces a Conceptual Framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence.

The Conceptual Framework assists auditors in maintaining both independence of mind and independence in appearance.

Threats to Independence

Threats to independence are circumstances that could, but not necessarily do, impair independence. Impairment depends on the nature of the threat, whether it is of such significance that it would compromise an auditor's professional judgment, and on specific safeguards applied to eliminate the threat or reduce it to an acceptable level.

- Self-interest threat – the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior;
- Self-review threat – the threat that an auditor or audit organization that has provided non-audit services will not appropriately evaluate the results of previous judgments made or services performed as part of the non-audit services when forming a judgment significant to an audit;
- Bias threat – the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;
- Familiarity threat – the threat that aspects of a relationship with management or personnel of an audited entity
- Undue influence threat – the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments;
- Management participation threat – the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit; and
- Structural threat – the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

Safeguards

Safeguards are controls designed to eliminate or reduce to an acceptable level threats to independence. Under the conceptual framework, the auditor applies safeguards that address the specific facts and circumstances under which threats to independence exist. In some cases, multiple safeguards may be necessary to address a threat. Safeguards include:

- consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor;
- involving another audit organization to perform or re-perform part of the audit;
- having a professional staff member who was not a member of the audit team review the work performed; and
- removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence.

Depending on the nature of the audit, an auditor may also be able to place limited reliance on safeguards that the entity has implemented. It is not possible to rely solely on such safeguards to eliminate threats or reduce them to an acceptable level.

Non-Audit Services

Routine audit services pertain directly to the audit and include:

- Providing advice related to an accounting matter
- Researching and responding to an audited entity's technical questions
- Providing advice on routine business matters
- Educating the audited entity on technical matters

Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project or engagement or in the auditors producing a formal report or other formal work product.

Other services not directly related to the audit are considered non-audit services.

Before an auditor agrees to provide a non-audit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other non-audit services provided. A critical component of this determination is consideration of management's ability to effectively oversee the non-audit service to be performed.

The auditor should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them. The individual is not required to possess the expertise to perform or re-perform the services. The auditor should document consideration of management's ability to effectively oversee non-audit services to be performed.

Auditors performing non-audit services for entities for which they perform audits should obtain assurance that audited entity management:

- assumes all management responsibilities;
- oversees the services, by designating an individual, preferably within senior management, who possess suitable skill, knowledge, or experience;
- evaluates the adequacy and results of the services performed; and
- accepts responsibility for the results of the services.

Non-audit services provided by auditors can impact independence of mind and in appearance in periods subsequent to the period in which the non-audit service was provided. For example, if auditors have designed and implemented an accounting and financial reporting system that is expected to be in place for many years, a threat to independence in appearance for future financial audits or attestation engagements performed by those auditors may exist in subsequent periods. For recurring audits, having another independent audit organization perform an audit of the areas affected by the non-audit service may provide a safeguard that allows the audit organization that provided the non-audit service to mitigate the threat to its independence. Auditors use professional judgment to determine whether the safeguards adequately mitigate the threats.

Independence Scenarios

- Drafting

You audit a not-for-profit with three employees – the executive director, an administrator, and a counselor – which just received a significant federal grant large enough to trigger Single Audit requirements. You decide to expedite the audit by creating the financial statements from their QuickBooks trial balance.

Preparing financial statements based on information in an audit entity's trial balance is an example of an activity that an auditor may be able to provide if the following conditions are met:

- the non-audit service is not expressly prohibited
- the auditor has determined that the requirements for performing non-audit services have been met
- any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards using the conceptual framework.

- Clueless

Your tiny not-for-profit audit client is overwhelmed by a grant's compliance requirements and you are afraid they will fail on every measure because they haven't read the requirements or thought about how they might comply. You point them to several websites where they can do research.

Although not an independence issue, this scenario might raise concerns about the management.

- Uber Conservative

You were the president of the Young Conservatives of Texas and want to make a difference in government. Your first job with a legislative auditor lands you in a compliance audit of the food stamp program. Every file you examine makes you angry and you want to recommend a change to state policy. Your manager reminds you to simply check for eligibility and move on.

AGA Austin Chapter
Program & Luncheon Meeting Minutes
Meeting Date: February 9, 2012
Page 4 of 4

This is an example of 'Bias Threat' which is the threat that because of an auditor's political, ideological, social, or other convictions, take a position that is not objective.

- Wanna job?

You are the ultimate professional and impress everyone you meet. Your current audit client is looking for employees. You like everyone at this company, although they do have a series of significant reportable conditions that deserve attention. Today, the executive director offered you an appealing job with a nice salary.

This is an example of Undue Influence threat, whereby external influences or pressures might impact an auditor's ability to make independent and objective judgments.

Conclusion and Adjournment

Number attending: 44 (including the speaker)

Future CPE events:	March 8, 2012	1CPE	Luncheon 11:50 a.m. – 12:50 p.m Location: Corazon at Castle Hill, Austin
	April 12, 2012	4 CPE	Audio Conference (2) 8:30 a.m. – 12:30 p.m. Location: ERS Board Room, 200 E. 18 th Street, Austin

The meeting was adjourned at 1:00 p.m.

Lynne Pfeffer
Secretary

Date: February 29, 2012