How to: Choose the Right Auditor

1. Planning the proposal process
2. Soliciting proposals
3. Selecting a qualified auditor
4. Monitoring performance
About Our Firm
Mueller Prost is a team of CPAs and business advisors who provide a full range of professional tax, audit, accounting and management advisory services. From its inception in 1983, the firm has grown to become one of the leading locally-owned public accounting firms in the St. Louis area and employs over 90 professionals and staff. We operate from offices located in St. Louis and St. Charles, Missouri and Irvine, California – serving clients nationwide.

For over 30 years, we have provided practical solutions and insightful advice, gaining a reputation as effective business advisors, auditors, and thought leaders in emerging tax issues, compliance and strategies to minimize tax burdens. Please refer to the table below, which outlines a selection of our client statistics.

We are a firm truly committed to providing proactive advice and exceptional service. Our network of professional resources, knowledge base, experience and business understanding allows us to provide responsive and timely feedback.

Our firm would be privileged to serve you. We believe our ability to serve you is directly related to the high degree of quality service we offer; the professionalism, expertise and experience of our people; and our philosophy of close, personal attention to our clients.

For more details, visit www.muellerprost.com.

About the PKF Network
Mueller Prost is a member of PKF North America, an association of independently owned accounting and consulting firms with offices across the United States, Mexico and Canada, who share resources such as education, client service and various ranges of expertise. By virtue of our membership in PKF North America, we have access to resources in PKF International, a network of legally independent member firms throughout the world.

We leverage our PKF relationships to answer industry, state or country specific questions and to draw upon additional expertise for our clients within narrow industry niches or with extensive national (or international) operations. This powerful resource directly benefits our clients while allowing us to maintain our autonomy and local identity.

The following whitepaper was created through a PKF North America Community of Practice.
Organizations of all types and sizes often require an independent auditor to provide an objective examination of their accounting records and financial statements. Or sometimes, organizations may not be required to have an audit, but they choose to engage an auditor. This typically occurs when investors, lenders, shareholders and other stakeholders need a high level of assurance that the financial statements they are basing their decisions on accurately reflect the organization’s financial condition and results of operations.

If you decide to hire an auditor, how do you go about choosing the right one for your organization? This white paper describes how you can create an effective audit procurement process to select the right auditor for your organization.

**A Four-Step Audit Procurement Process**

1. **Planning the proposal process**
   - Upfront planning will require some time and effort on your part, but this will pay off by ensuring that the audit procurement process runs smoothly and efficiently.

2. **Soliciting proposals**
   - This step includes writing a clear and concise solicitation document or Request for Proposal (RFP) and distributing this to audit candidates.

3. **Selecting a qualified auditor**
   - The audit committee or an evaluation committee should be tasked with reviewing the proposal submissions and choosing the auditor that is the best fit for your organization.

4. **Monitoring performance**
   - The audit committee should develop a process to review the auditor’s performance and service delivery.
Establish an audit committee.
This committee — or an evaluation committee if they are not members of your board of directors — should consist of board members and include executives from finance, accounting and management who are responsible for oversight of financial reporting and disclosure for the organization. The committee will take the lead in searching for and selecting the auditor and monitoring the audit process.

Determine the scope of the audit and the specific audit requirements.
This step outlines the work to be performed and the service deliverables required. You should include all items you expect to receive at the end of the engagement — general purpose financial statements, special financial statements or schedules, management report items, compliance activities/reporting for government, etc.

Identify the most important auditor attributes and credentials.
All auditors must meet minimum professional standards in order to perform audits. Beyond these minimums, here are a few more attributes to look for in potential auditors:
• Experience performing audits for other organizations similar to yours.
• A good reputation in your industry and marketplace.
• A good cultural and philosophical fit and shared core values with your organization.
• Breadth and depth of skills in the audit team.
• Responsiveness and adherence to deadlines.
• Continuity of the audit team.

Determine the RFP evaluation model.
In order to fairly evaluate submissions and determine how the audit committee will make a decision, you should develop an evaluation model that outlines the criteria you will look for and how you will assign points to each proponent. This model should be used for the written proposals and the interview stage. The criteria should be developed based on the services required (technical aspects like skills and experience) and attributes of the auditor (such as price and timeliness). In many cases, you will receive a number of similar proposals from highly qualified auditors, so this model will allow you to differentiate between them.

Consider multi-year auditor arrangements
There are potential advantages for both you and the auditor of engaging an auditor under a multi-year arrangement. Starting a new auditor relationship requires a significant investment of time by the auditor and your management team. Using a multi-year arrangement allows you to build a relationship with your auditor, which can lead to time and cost efficiencies. Obtaining proposed pricing for future years also allows you to have an idea of future costs for budgeting purposes, and proponents may provide preferential pricing under a multi-year scenario. Finally, a long-term partnership with your auditor will lead to more productive audits and more suggestions for improvements from the audit team.
Soliciting Audit Proposals

Your goal in soliciting audit proposals is to encourage as many qualified auditors as possible to submit a proposal. At the same time, you don’t want auditors who may not be qualified or unable to meet your requirements to submit proposals, as this will simply waste your time and theirs. It is prudent to conduct your proposal process well before your fiscal year end to ensure there is sufficient time to receive and evaluate proposals and select the auditor.

Creating a Request for Proposal (RFP)

The best way to solicit proposals from potential auditors is to create a written RFP. Your RFP should contain enough information so that proponents can clearly understand your specific audit needs, the evaluation criteria that will be used in selecting an auditor, and the steps and timeline that will be followed in the audit procurement process. This typically includes:

- The name and address of the entity to be audited and a point person’s contact information.
- The scope of services to be provided and specific reports to be delivered as part of the audit engagement.
- The time period that will be audited (fiscal year end or multiple year ends).
- The anticipated schedule of work for the audit engagement and reporting deadlines.
- A brief description of your organizational structure and the type of work your organization does, as well as your accounting system, administrative controls and financial procedures.
- How much and what kind of assistance your organization will be able to provide to the auditor.
- Copies of the prior year audited financial statements and note disclosures.
- A request for three references.
- The format in which the RFP should prepared and returned to you, including whether electronic submissions are acceptable.
- Deadlines for RFP submission.
- A description of the decision making process including dates for evaluation, interviews, decisions, and notification to proponents.

Addressing Questions

No matter how thorough you are in the preparation of your RFP, proponents are likely to have questions. Often, the best way to respond to questions is to require that they be sent in writing (e.g., by email or fax) during a certain period of time. Responses may be provided directly to the person asking or may be shared with all proponents.

Distribution

The RFP should be strategically distributed and/or publicized so that it is easily accessible to qualified audit candidates. Posting the request for proposal on your website, tendering websites, through social media or in the newspaper or industry publications can be effective. However, the best approach is to identify a list of firms in your marketplace that appear to meet your qualifications.

Consult professional directories and perform online research to identify these candidates. Also rely on your past history with accounting and auditing firms (if you have any), reach out to your business network, and ask other organizations in your area/industry for recommendations. Once you have compiled your list, you can send a copy of the RFP to the potential auditors or contact them by phone or email (or both) to gauge their interest in your RFP.
Selecting a Qualified Auditor

Your audit committee is responsible for reviewing the RFP submissions and selecting the auditor it believes is the best fit for your organization. The review should evaluate the written submissions and any interviews or presentations in accordance with the evaluation criteria already established.

Screening Candidates
A good first step is to quickly screen all candidates to see if they meet your minimum criteria before delving deeper into the documents. This way, you can immediately exclude candidates that don’t meet the minimum requirements, thus saving time from reviewing the submissions more thoroughly. Minimum standards typically include meeting any licensing or other legal requirements, meeting the independence standard, and the ability to meet reporting deadlines.

Evaluation of Proposals
Beyond these minimum standards, your audit or selection committee should evaluate proponents based on such criteria as:

- Does the auditor have a good understanding of the audit’s objectives, your organization’s needs and what the final deliverable needs to be?
- Does the RFP reflect a sound technical plan and a realistic timeframe and turnaround estimate?
- Does the technical plan reflect a practical approach to meeting deadlines and benchmarks?
- Will the auditor use a systematic approach to examining your systems and internal controls and effective procedures to determine to what extent audit testing and review will be necessary?
- Does the auditor have relevant experience doing audit work for other organizations that are similar to yours in type, size and industry?
- Did you receive positive feedback from the references about the auditor’s performance?
- Has the auditor passed its most recent peer review?
- Does the RFP include enough details about the proposed audit team to determine whether there is enough collective experience to perform the audit work that will be required?

Interviews and Presentations
Once the evaluation of the written submissions is complete, you should conduct an interview of the top candidates. The audit or selection committee should narrow the list down to no more than three finalists. Typically, candidates will make a short presentation highlighting their proposals and then the selection committee will ask questions, which may be ad hoc or from a pre-set list.

Committee Recommendations
After the interviews, the committee will evaluate the candidates and make a recommendation to the board regarding the preferred auditor it feels is the best fit for the organization. This may or may not be the lowest-priced auditor — cost is an important consideration, but should not be the deciding factor in choosing an auditor.

Contracting the Engagement
The auditor you have selected will then draft a formal engagement letter for both you and the auditor to sign. It should document the scope, objective and purpose of the audit engagement; deadlines for audit work to be performed; the audit cost and payment terms; which standards will be followed by the auditor; and the overall expectations on the part of both your organization and the auditor. This agreement will be a binding legal document so you should get input from legal counsel with regard to its form and substance.
Monitoring the Audit Engagement

Undertaking a proposal process to choose an auditor is a significant investment of time and effort. Once the auditor is chosen, it is typically the audit committee’s responsibility to review the performance of the auditor on an annual basis.

The audit committee should establish evaluation criteria to ensure that the auditor has provided the audit services in the manner required and expected in the RFP. Often, the evaluation of an ongoing audit engagement is very similar to the criteria considered when selecting an auditor. The audit committee should solicit feedback from the management team that is working with the auditor on a day-to-day basis.

Finally, be sure to schedule a wrap-up meeting or exit conference with the auditor after the audit is complete to discuss the auditor’s draft report. Make sure you have a clear understanding of the audit report and its findings before this meeting is concluded, as well as any recommendations the auditor is making based on the report.

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