

# City Council Workshop

## Audit Firm Rotation

Arlena Sones, CPA, CIA, CGAP

City Auditor

City of Corpus Christi

# Audit Firm Rotation

Audit firm rotation limits the time that one firm can audit an entity's financial statements.



It's all about maintaining objectivity and independence.



# Authoritative Sources

AICPA

American Institute of Certified Public Accountants

- SAS Statement of Auditing Standards

GAO

Government Accountability Office

- Government Audit Standards

GFOA

Government Finance Officers Association

- Best Practices & Advisories

PCAOB

Public Company Accounting Oversight Board

- Auditing Standards for Public Companies

# In the News

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## Auditor 'Rotation' Debate Heats Up

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By MICHAEL RAPOPORT  
March 27, 2012 6:58 p.m. ET

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THE WALL STREET JOURNAL.

U.S. EDITION Tuesday, October 8, 2013 As of 3:53 PM CDT

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## CFO Journal.

Data Dashboard Deals Dashboard CFO Report Compliance Capital Liquidity Management

July 9, 2013, 2:11 AM ET

### House Passes Bill to Ban Auditor Term Limits

Article Comments (1)

If enacted, rotation would break up auditor-client relationships that in some cases have lasted decades.

# Audit Firm Rotation

## Proponents

- Enhances auditor independence, objectivity and skepticism
- Reduces the chance of auditor bias towards management
- Enhances audit quality
- Provides a fresh look at reporting



## Critics

- Doesn't guarantee objectivity and independence
- More costly audit
- Longer audits
- Loss of institutional experience
- Audit quality suffers in early years of the engagement



# AICPA and GAO

## AICPA

No standard exists for mandatory auditor rotation

"It is imperative, however, that the exempt organization's **audit committee regularly reviews the auditor relationship** for effectiveness, expertise and independence."



AICPA Comments on the Senate Finance Committee Discussion Draft Relating to Charitable Governance, July 22, 2004.

## GAO

Opposes mandatory firm rotation

"an entity ...should **consider the benefits of rotation and establish a policy regarding its use** when appropriate."

"...consider using multiyear agreements, preferably of a **5 year duration**, due to the potential long-term cost savings and benefits."



GAO Report, CPA Audit Quality, A Framework for Procuring Audit Services, August 1987, page 6.

# GFOA

Ideally government entities should have a policy requiring that the independent auditor be replaced at the end of the audit contract.

Recommends multi-year agreements

- at least five years in duration
- allows for greater continuity
- minimizes the potential for disruption in connection with the independent audit
- reduces audit costs by allowing auditors to recover certain “start-up” costs over several years rather than over a single year

GFOA Recommended Practice, Audit Procurement (1996 and 2002).



# Current Contract

RFP issued May 6, 2010  
Contract July 13, 2010  
Term 1 Year (4 renewals)

Collier Johnson & Woods, PC  
has been the City's external  
audit firm since 1996.

FY 2009-2010 Original Term  
FY 2010-2011 1<sup>st</sup> Renewal  
FY 2011-2012 2<sup>nd</sup> Renewal  
**FY 2012-2013 3<sup>rd</sup> Renewal \***  
FY 2013-2014 4<sup>th</sup> Renewal \*\*  
FY 2014-2015 **New RFP\*\*\***

*1996...1997...1998...1999...*

*2000...2001...2002...2003...*

*2004...2005...2006...2007...*

*2008...2009...2010...2011...*

*2012...2013...*

\*Third renewal exercised 7/18/13.

\*\*Final renewal option; final year of PeopleSoft

\*\*\*Implementation of new financial system





# Benchmarking

City Ranking (population)	Ordinance, Policy or RFP?	Current Firm Re-bid Allowed	Term (plus extensions)
4 <sup>th</sup> Austin*	RFP	Yes	3+2
5 <sup>th</sup> Fort Worth	Policy	Yes	5
6 <sup>th</sup> El Paso	RFP	Yes	3+1
7 <sup>th</sup> Arlington	RFP	Yes	3+3
8 <sup>th</sup> Corpus Christi	RFP	Yes	1+4
9 <sup>th</sup> Plano	Ordinance	No	5
10 <sup>th</sup> Laredo	RFP	Yes	2+2
11 <sup>th</sup> Lubbock	RFP	Yes	5
* Partner rotation is allowed			

# City of Plano

## B. Auditor Rotation

The City Council has deemed it advantageous, in Resolution No. 83-5-15(R), to appoint an auditor for a five-year term with such appointment to be **rotated automatically to another auditor at the end of five years**. The audit engagement shall be for five years, subject to annual review and approval by the City, the satisfactory negotiation of terms (including a price acceptable to both the City and the selected firm), and the annual availability of an appropriation.