Evaluating a CPA Firm

In any company, the audit committee (or the board of directors) is responsible for making sure the company’s finances are audited properly. This oversight includes hiring, evaluating, and — if necessary — firing independent auditors. To help your audit committee carry out this responsibility, RFPAudit.com offers this list of questions directed toward key executives and the audit committee itself. Audit committee members should use these questions as a starting point, asking follow-up questions where appropriate.

CPAs must adhere to strict standards of independence, acting with integrity and objectivity and maintaining a strong sense of professional skepticism, as enforced by the state board of accountancy. CPAs are in conflict with independence standards if they find themselves in a position to influence or make management decisions, provide accounting services, or obtain financial interest in a company. If a situation arises that might impair a CPA’s independence, the CPA must document the circumstances and report to both his or her firm and the potential client.

To monitor compliance with independence standards, the audit committee maintains contact with both the management team and the auditing firm. When evaluating independent auditors, the audit committee should be careful in assigning importance to various information, depending on its source and the perspective or motivation of that source.

Questions for Audit Committee Members

1. Did the auditors meet with you in a timely fashion?
2. Did the auditors address internal “tone at the top” issues and current antifraud programs and controls?
3. Did the auditors inform the audit committee of any new or previously unreported risks?
4. Were the auditors thorough in discussing issues related to the quality of financial reporting, including issues related to any new and significant accounting principles?
5. Were the auditors forthright in communicating issues?
6. Did the auditors seem protective of management?
7. Does management seem to exercise undue influence over the independent auditors?
8. Do the auditors seem reluctant to mention issues that would reflect negatively on management?
9. Is the audit committee satisfied with the overall planning and conduct of the audit, including the financial statements and internal control over financial reporting?
10a. Did the auditors report to the audit committee significant deficiencies and material weaknesses related to the audit (AU section 325, Communicating Internal Audit Control Related Matters Identified in an Audit [AICPA, Professional Standards, vol. 1])?

10b. Did the auditors explain how they aggregated identified control deficiencies and material weaknesses?

10c. Did the auditor discuss these deficiencies with management?

11. Did the auditors report to the audit committee significant matters such as planned scope and timing of the audit, as required by AU section 380, The Auditor’s Communication With Those Charged With Governance (AICPA, Professional Standards, vol. 1)

12. Is the audit committee satisfied that the independent auditors are truly independent and objective in both fact and appearance? The committee should:

   Review all audit-related and nonaudit services conducted by the independent auditors in the prior year.

   Review whether the CPA firm, the office, or the partner is dependent on the company for a significant amount of its fee income.

   Review whether former members of the audit team are now employed by the company.

   Consider whether any of these conditions that exist impair the auditor’s independence.

13a. Is the concurring partner (if applicable) appropriately compensated?

13b. Is the concurring partner protected in the event that he or she needs to make a difficult decision?

14. Is the audit committee satisfied with its relationship with the auditors? Consider whether:

   The partner in charge of the audit participated in audit committee meetings.

   The auditors were open and thorough in required discussions with the audit committee.

   The auditors were open and thorough during executive sessions with the audit committee.

   The auditors met deadlines in delivering services to the company.

15. Was the audit fee fair and reasonable in the current marketplace?

16. Did the auditors deliver constructive observations, implications, and recommendations in deficient areas, particularly with respect to the company’s internal controls over financial reporting?
16. Do the auditors understand the industry and company?

Questions for the CEO
1. Are you satisfied with the scope, nature, extent, and timing of testing performed by the auditors?

2. Are you satisfied with the knowledge and abilities of the CPA firm’s staff who carried out the audit?

3. Are you satisfied with the partner, manager, and other leadership assigned by the auditor?

4. Did the auditors provide constructive observations, implications, and recommendations in deficient areas, particularly with respect to the company’s internal controls over financial reporting?

5a. Would you recommend hiring this firm to conduct next year’s audit?

5b. If yes, would you recommend any changes?

6. Are you satisfied with the quality and quantity of information provided by the independent auditors?

7. Did the auditors identify potential issues early enough for you to address them without delaying the audit?

Questions for the Chief Audit Executive
1. Are you satisfied with the scope, nature, extent, and timing of testing performed by the auditors?

2. Did the auditors cooperate with you in coordinating audit efforts to ensure complete coverage, reduce redundant efforts, and effectively use audit resources?

3. Are you satisfied with the knowledge and abilities of the CPA firm’s staff who carried out the audit?

4. Are you satisfied with the partner, manager, and other leadership assigned by the auditor?

5a. Did the independent auditors work with the internal auditors as planned?

5b. Was cooperative work conducted professionally and with mutual respect?
5c. Are you satisfied with the quality and quantity of information provided by the independent auditors?

6. Did the auditors remain independent of the company in spite of any services the auditors provided to the company?

7a. Do you know of any other information that might impair the independence of the audit firm?

7b. Are you aware of any individuals on the audit team who might not be independent with respect to the company?

8a. Would you recommend hiring this firm to conduct next year’s audit?

8b. If yes, would you recommend any changes?

Questions for the CFO

1. Are you satisfied with the scope, nature, extent, and timing of testing performed by the auditors?

2. Are you satisfied with the knowledge and abilities of the CPA firm’s staff who carried out the audit?

3. Are you satisfied with the partner, manager, and other leadership assigned by the auditor?

4. Did the auditors provide constructive observations, implications, and recommendations in deficient areas, particularly with respect to the company’s internal controls over financial reporting?

5a. Would you recommend hiring this firm to conduct next year’s audit?

5b. If yes, would you recommend any changes?

6 Are you satisfied with the quality and quantity of information provided by the independent auditors?

7. Did the auditors identify potential issues early enough for you to address them without delaying the audit?

Questions for the Chief Accounting Professional

1. Are you satisfied with the scope, nature, extent, and timing of testing performed by the auditors?
2. Are you satisfied with the knowledge and abilities of the CPA firm’s staff who carried out the audit?

3. Are you satisfied with the partner, manager, and other leadership assigned by the auditor?

4a. Would you recommend hiring this firm to conduct next year’s audit?

4b. If yes, would you recommend any changes?

5 Are you satisfied with the quality and quantity of information provided by the independent auditors?

6. Did the auditors identify potential issues early enough for you to address them without delaying the audit?

Additional Questions or Comments