

March 2017

A little free advice: encourage your auditor to speak freely

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Having led over 1,000 audits of almost every shape and size, I often find myself in possession of extremely confidential and sensitive client financial information. This position of privilege occasionally provides me with a glimpse into a cross-section of some of the most successful (and sometimes unsuccessful) businesses in Canada each and every year. It is from this vantage point that I am offering a little free advice from a simple auditor to any client or potential client.

Yes, we charge for that – please stop asking

In any business, the best clients get the best service. Think of your own business for a moment and tell me this is not the case. If a client calls an auditor and asks a question that they do not know the answer to, then yes, like our infamous legal brethren, there will be a bill for that.

If what you are looking for is a little value added, consider this approach. Auditors quoting on groups or larger clients occasionally include a bundle of consulting hours as part of the quote. You shouldn't be afraid to ask your auditor for this when evaluating audit proposals. In competitive RFP processes where audit services are sometimes perceived as commodities, the small value-added components (like offering consulting hours) separate the successful auditor from the unsuccessful. But once this "bundle" has been agreed to, it is imperative that you trust the auditor to track this time separately, billing only time in excess of amounts agreed.

Be Open, Honest and Forthcoming

I've been going to the same dentist for almost 40 years and I recognize that oral healthcare is not a one-sided relationship. The dentist reviews my dental health regularly and lets me know whether I have any issues (cavities, soft spots, areas to work on). In my regular check-up, it is extremely important to heed the advice from your oral health team (hygienist and/or dentist). It is their job to advise and make recommendations that keep your mouth healthy. One can draw a number of comparisons between

a dentist's pursuit of oral health and an auditor's pursuit of financial health.

Before going to the dentist, I'm often keenly aware of sensitivities with respect to my teeth and gums. Upon arrival, my dentist always asks if there is anything to be aware of before beginning the inspection and cleaning process. This is your chance to fess up about a pain in your tooth or the fact that you haven't flossed in six months. Why wait to report this? They are going to find out as soon as they start looking. Sadly, when meeting an auditor, some clients are less than open, honest and forthcoming about the state of their financial records. In the same way dentists rely on X-rays, auditors have tools they use to quickly identify indicators of poor financial health.

As a patient, I want to know right away if there are indicators of poor dental health. Furthermore, I want my dentist to explain exactly what I can do to get back on track. Clients should want the same thing when it comes to their financial health. Sadly, some clients hide their financial health by undertaking certain actions such as shading (supporting one accounting treatment over another less preferable option), inappropriately capitalizing (soft) assets, hesitating to impair underperforming assets and refusing recommendations on allowances and accruals. These are all indicators of impaired financial health. Don't let pride prevail at the expense of taking corrective action. If issues go unaddressed at the dentist, there will be more pain later. The same is true of your financial health.

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Understand your role and your relationship to others

Visualize a Venn diagram representing three distinct – yet sometimes overlapping – roles: client, management and auditor. Practically speaking, auditors are engaged by management (engagement letters are often addressed to and signed by a president or CFO), but it is important to remember that the Independent Auditors' Report is generally addressed to the true client (board of directors, shareholders or members). I explain this relationship in audit wrap-up meetings by noting that auditors work *with* management and *for* the board of directors, shareholders or members.

While it is more enjoyable when auditors are able to establish and maintain a pleasant, professional working relationship with management, it is not and should not be the primary goal of either party. In fact, focusing on this relationship sometimes comes at the expense of important reporting responsibilities of both parties. The auditors need to be able to communicate freely, and they are most effective as advisors when that communication can be made

without concern for its impact on a client relationship. As a client, you should want your auditor to speak freely, without regard for the potential impact that their news may have on the client relationship.

When your dentist gives a professional medical opinion that you have two cavities and a soft spot, they also propose a solution to address the issues and a timeframe. In general, we don't feel offended when this happens. We don't try and shade by trying to convince the dentist that the first cavity is just a small one and the soft spot will go away. Why is it that clients have a problem accepting this feedback from financial professionals like auditors? At the end of the day, auditors are a necessary part of an external compliance equation. Encouraging them to speak as freely as your dentist and being open to hearing bad news can maximize your chances of finding success in business and maintaining long-term financial health.

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