

May 1, 2017

The Honorable Rebecca Otto
Office of the Minnesota State Auditor
525 Park Street, Suite 400
St. Paul, MN 55103

Dear Auditor Otto:

The Minnesota Society of CPAs (MNCPA) respectfully submits this letter in response to the March 2017 report issued by the Minnesota Office of the State Auditor (OSA) titled “Assessing the Adequacy of 2015 County Audits Performed by Private CPA Firms.”

The MNCPA has reviewed the report and gathered information regarding the process used to create and distribute the report. The OSA serves an important role in ensuring fiscal integrity and accountability by Minnesota’s local governments. Public trust is vital to having a well-functioning government, and public trust is earned through objective and independent audits.

The CPA profession serves the public interest and, therefore, is held to a high standard. In addition to the OSA, the accounting profession is regulated or overseen by the Securities and Exchange Commission (SEC), the Department of Labor (DOL), the Minnesota Board of Accountancy (BOA), the Office of Management & Budget (OMB), the U.S. Government Accountability Office (GAO), the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA). The profession has a tradition of working collaboratively with regulators and standard setters. This ensures financial statement quality, reliability and usefulness to users and decision-makers.

Many government entities have complex funding and program requirements. These requirements and regulations are defined by multiple agencies and can change from year to year. In addition, the audit requirements included within the professional standards are complex and also change from year to year. These complexities require auditors to use professional judgement when performing their audits, especially when the standards do not clearly address an existing situation. Professional judgement is also needed when standards allow multiple solutions for the same requirement.

In working with many organizations that have oversight authority, there exist best practices to ensuring a fair, consistent and transparent oversight review process that will provide the reviewer assurances as to the quality of the work, and allow the reviewee opportunities to provide information and help in locating documentation of procedures performed by the auditor. When professional judgement is required to select among multiple options, a dialogue between the reviewer and the reviewee is essential to having an effective review.

The objectivity and accuracy of the OSA’s report is in question due to the following:

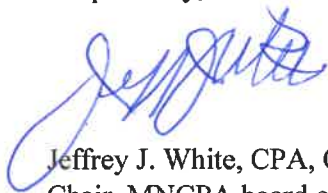
1. While CPA firms have received a report of the OSA’s findings in the past, the OSA did not have a previous practice of publishing all of its findings, then broadly distributing those findings to all counties and legislators. Based on the intent to publish the report, CPA firms should have had an adequate opportunity to respond to the findings, and be assured that their responses would be considered and included in the final document.

2. As noted earlier, professional judgement is a critical part of performing an audit. There are numerous instances where professional judgement must be used and alternatives identified for where and how decisions are documented. Reviewing workpapers provides some measure of professional judgement, but drawing comprehensive conclusions about professional judgement requires a dialogue. The creation of the report lacked adequate dialogue between the OSA's office and the firms performing county audits.
3. The OSA issued a public report that has the potential to damage a firm's reputation with current clients, potential clients and the public without an opportunity for due process. Best practices in peer review allow for communication of matters initially identified by the reviewer, a dialogue between the reviewer and the reviewee to agree on facts and answer questions, a presentation of the reviewer's tentative conclusions with an opportunity for the reviewee to respond, consideration and acceptance of the review by a third party (report acceptance body), and concluding with the release of the final report. The process to prepare the county audit report did not include several of these steps.
4. While the OSA provides an audit guide, "Financial and Compliance Audits of Minnesota Counties," the guide does not address how disagreements regarding the interpretation of standards are resolved between the OSA's office and CPA firms. Resolution of differences is another critical component of a fair and transparent process.

The MNCPA respectfully requests that the OSA allow the firms listed in the OSA's county audit report to officially submit comments regarding its findings. In addition, we request that the OSA reissue the report with the firm's responses included, and redistribute the report to all parties in the original distribution list by June 15, 2017. It is only through reissuing the report that the users of the financial statements, including county officials, taxpayers and county residents, will have a clear understanding regarding the quality of their county's financial statement.

We thank the Office of the State Auditor for the important work they do to ensure sound fiscal practices by local governmental units. While we believe the current county report and review process can be improved, we also believe that the CPA profession and the OSA can and should work together collaboratively to ensure continued strong oversight for the citizens of Minnesota.

Respectfully,



Jeffrey J. White, CPA, CGMA
Chair, MNCPA board of directors



Linda Wedul, CAE
President

Cc: Members of the Minnesota House of Representatives
Members of the Minnesota Senate
Minnesota county board chairs