

## Compliance Today – August 2018 What's a reasonable expectation of auditors?

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Please feel free to contact me anytime to share your thoughts.

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Inevitably, after a compliance problem, somebody shouts, “Where were the auditors?” Part of the problem is that if you asked 20 board members what an auditor does, you’d get 20 different answers. I’ve even seen numerous audit committees with significant misunderstandings of auditor responsibilities.

So, what is a reasonable expectation? It starts with the financial statements, where auditors provide “reasonable” assurance that the numbers are fairly stated in all “material” respects. The two words in quotation marks involve a high degree of subjectivity. Even materiality, which many people think is simply a number, involves a lot of judgment. If a hospital with \$750 million in revenue improperly records \$10,000 of revenue, is that material? Does your answer change if the hospital meets a critical bond covenant by \$2,000?

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