



MEMORANDUM

July 3, 2018

TO: BOARD OF DIRECTORS
ANDY MUELLER, GENERAL MANAGER

FROM: IAN PHILIPS, CHIEF ACCOUNTANT

SUBJECT: AUDIT FIRM ROTATION

ACTION: *Staff requests that the Board provide direction regarding a proposed change of Audit Firm*

STRATEGIC INITIATIVE(S): 12. *Financial Sustainability*

Since 2007, the District has used RSM US, LLP (f.k.a. McGladrey & Pullen) to perform the annual audit. While RSM has been a pleasure to work with over the years, we believe the time has come to consider the possibility of contracting with a different audit firm. Audit firm independence is fundamentally important to the integrity of the District's reporting system.

Auditor independence is described by the Public Company Accounting Oversight Board (PCAOB), an organization established to set and monitor accounting standards and practices, as "both a description of the relationship between auditor and client and the mindset with which the auditor must approach his or her duty to serve the public." (PCAOB Release No. 2011-055, August 16, 2011). One measure of an independent mindset is the auditor's ability to exercise "professional skepticism," which is "an attitude that includes a questioning mind and a critical assessment of audit evidence." PCAOB standards require an auditor to conduct an audit engagement "with a mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity."

Audit firm rotation prevents auditors becoming too cozy with the governments whose finances they are supposed to scrutinize, putting them at risk of losing a healthy sense of professional skepticism. As such, I have solicited a bid from Haynie & Company, to perform the 2018 year-end audit. Haynie & Co's proposal came in at \$21,000, a significant savings of \$5,670, from the cost of the 2017 year-end audit. Haynie & Co. has a large governmental audit practice and currently serves over 70 local governments, including the Southwestern Water Conservation District, and the City of Grand Junction.