

Client and Engagement Management

Managing the Black Holes That Erode
Profitability

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Learning Objectives

- Recall best practices for improved delegation and project management
- List guidelines for better ensuring that clients are ready for the start of the engagements

Improved Engagement Budgeting

AU Section 220, *Quality Control for an Engagement*

- Supervision includes:
 - Tracking progress of audit engagement.
 - Considering competence and capabilities of individual engagement team members, including understanding of instructions and planned audit approach.
 - Ensuring adequate time to complete work.
 - Addressing significant findings or issues that arise, including necessary audit plan modifications.
 - Identify matters for consultation.

Why Engagement Time Budgets?

- Engagement Teams = CPA Firm's Inventory.
- Need budgets to evaluate operating performance.
- Essential to an effective and efficient audit.

Budgets -- A Useful Tool in Audit Phases

- Planning:
 - Scheduling both hours and experience.
 - Fee arrangements.
- Fieldwork:
 - Isolate potential problem areas.
 - Support additional billings.
 - Highlight necessary schedule revisions.
- Wrap-up:
 - Evaluate team performance.
 - Assess profitability.
 - Plan next year's engagement.

Why Might Budgets Not Be Used?

1. I don't have time to budget.
2. Budgets are always unrealistic expectations of what can be accomplished.
3. It is too difficult to predict how long something should take.
4. No one ever pays attention, so why bother?
5. No one records their hours accurately, which makes the budget to actual meaningless.

Realistic Budgets Are Important

- If budgets are too low...
 - Budgets are ignored.
 - Staff are forced to “eat time.”
 - Increased pressure to cut corners.
 - Morale is lowered.
- If budgets are too high...
 - All hours are still used.
 - Over-auditing is encouraged.

Challenge Each Year

- Critically rethink past efforts for what can be improved.
- Consider changing circumstances.
- Have a healthy discussion challenging why expectations are reasonable, when necessary.
- Analyze results “post-mortem” for next engagement:
 - What should you keep doing?
 - What should you stop or start doing?

Why can't you have a nose 12 inches long?

- Because then it would be a foot...

Better Scheduling

Guidelines for Better Scheduling

1. Consider the client's schedule:
 - Anticipate client distractions, such as board reporting packages, renewing grant applications, planned vacations, etc.
2. Do not have everyone jump in at once:
 - Consider staggering arrival dates to maximize productivity.
 - In-charge may relish having 1-2 days to get organized before diverting attention to less experienced staff.
3. Align schedule with the budget:
 - Excess capacity will get used.

Guidelines for Better Scheduling

4. Use interim to your advantage:
 - Shifting hours to less busy times may increase focus.
 - Vouch fixed asset additions, test internal controls, testing compliance with grant program requirements, reviewing minutes, etc.
5. Do not overschedule the number of people on an engagement:
 - Easier to approach client, since workload spread out.
 - Better understanding of client since responsible for more areas.
 - Big picture perspective may lead to improved client service.

Improving Delegation

Professional Services Firm Bad Habit -- Underdelegation

- Typical that 40-50% of a firm's productivity capacity is consumed by a higher-priced person performing a lower-value task:
 - High costs lead to a competitive disadvantage and lower profits
 - Loss of development opportunities for junior staff
 - Higher turnover, due to poor morale and job satisfaction if junior staff not given professional development opportunities when capable
 - Underinvestment in the future resulting from more senior people not focused on high-value tasks critical to future success

Why Do Firms Underdelegate?

- Easier to do it myself and similar
- Excessive pressure by firm on individual charge hours
- Primary measure of profitability at the engagement level is realization rate -- the percentages of standard personnel rates collected from the client:
 - Does not include incentive to increase leverage or delegation, which may initially take more time
- Reluctance to invest in the coaching and supervision time necessary to successful delegation

Importance of Delegating

- Involves trusting someone else with a task that you ultimately remain responsible for:
 - Streamlines your workload.
- Allows you to focus on what is important for YOU to focus on:
 - Engagement monitoring, client service, on-the-job training, higher risk audit issues, etc.
- Motivates and builds confidence of staff:
 - Invests in their professional future.

What Not to Delegate

- **Leadership** -- Drive and stewardship of project
- **Personnel** -- Goal setting and performance feedback
- **Control** -- Ensure discipline, accuracy, quality, and efficiency
- **Key Relationships** -- Client development
- **Strategy** -- Planning for short- and long-term
- **Communications** -- Maintaining smooth flow of relevant information
- **Results** -- Assessing outcomes and application of lessons learned

Develop Mutual Trust and Respect

1. Practice open and effective two-way communication.
2. Express own ideas clearly.
3. Ask for input and suggestions before finalizing plans:
 - Develops critical thinking and problem-solving skills.
4. Listen to other person's point of view:
 - Gives the delegate a real sense of responsibility.
5. Give honest and timely feedback, positive and constructive.
6. Establish a positive rapport.

Select What to Delegate

- Plan your own daily and weekly schedule:
 - Segregate tasks that can be assigned to others.
 - Prioritize tasks that can only be done by you.
 - Consider both importance and urgency of tasks.
- Do not delegate things that should not be done at all.
- Do not simply delegate tasks you dislike, be purposeful with intent.

Choose the Right Delegate

- Delegate as early into project as possible:
 - “Emergency” delegations should be rare.
- Do not just commandeer the nearest warm body.
- Proficiency should not be sole consideration in task assignment.
- Staff must be both willing and able to tackle assigned tasks.

Properly Brief the Task

- Ensure accountability is clear from the outset.
- Proper briefing will lead to better execution:
 - You cannot hold people responsible for vague or undefined tasks.
- Allocate necessary resources for successful task completion.

Share Big Picture and Relevant Information

- Clearly define the overall objective.
- Provide framework for how to accomplish objective:
 - Allow flexibility within stated timelines and authority.
- Explain the “why” of risk assessments and planned procedures:
 - Empower staff to contribute ideas and suggestions.

Encourage Ownership

- Help staff prioritize tasks
- Instill pride in performing at highest standards:
 - Use review notes to reinforce positive outcomes
- Team with staff to eliminate overauditing and inefficiencies:
 - Acknowledge contributions to under-performance from all sides
- Say thank you with sincerity, when appropriate

Monitor the Delegate

- Coach rather than micromanage.
- Tight hand on a light rein often appropriate:
 - Develop a system to gather information you need, to pinpoint when corrective action is required.
 - Keep closer eye on areas most crucial to achieving desired outcomes.
- Review time budgets and ask probing questions to ensure everyone is still on track.

Checking in with Delegates

- Make clear about when you expect to be told about problems.
- Encourage them to seek advice when in doubt, without removing accountability for thinking things through first.
- Use positive questions that encourage suggestion of own solutions:
 - Is there anything you want to bring to my attention?
 - Any suggestions on how to avoid XX from happening again?
 - What steps do you suggest taking to bring things back in line with the engagement budget?

Response When Projects Go Awry

- Analyze what went wrong and lessons learned:
 - Focus on explanation, not excuses
 - Objectively self-examine own contributions
 - Invite upwards feedback
 - Do not play the “blame game”
- Ensure similar mistakes are not repeated:
 - Establish performance improvement goals

Give the Delegate Timely Feedback

- Recognize and reward behaviors you want repeated
- Share feedback from upper management and client:
 - Ensure credit is duly shared
 - Avoid temptation to place blame
- Provide specific constructive feedback for areas needing improvement

Handling Difficulties in Delegation Exercise

Continual Interruptions -- Delegate asking too many questions.

- Explain that you expect them to act on their own initiative, whenever possible.
 - Make clear about when you expect to be told about problems. Provide specific examples.
- Go back to the brief, to ensure that the staff understands what, how, and why from a big picture perspective.
- Build confidence by praising good work. Correct, but do not dwell, on mistakes.

Handling Difficulties in Delegation Exercise

Rebound Tasks -- Whole or part of delegated task ends up back on your plate.

- Consider whether the task was too complex.
 - Perhaps the task can be broken down into more manageable components, where part of it can be delegated and part retained or delegated elsewhere.
- Staff must be both technically competent and motivated to perform.
 - Lack of technical competence requires more hands-on and detailed involvement with the task.
 - Lack of motivation requires more focus on developing a collaborative and supportive relationship.

Handling Difficulties in Delegation Exercise

Support Overload -- You help out in order to save time and eliminate risk of mistake.

- You need to force yourself to let go, when appropriate.
- Resist the temptation to intervene when work is not being done your way.
- Although you need to maintain accountability for the overall project success, you must allow for learning through trial and error.

What do you call a 3-legged horse?

- Unstable....

Ensuring the Client is Ready

Client Assistance Requests

- Often called “Prepared By Client” or “PBC” letters.
- Failure by client to be ready for audit can devastate efficiency:
 - Books are closed and ready for audit.
 - Accounts reconciled to the general ledger.
 - Support available for advance selections.
 - Footnote support.
 - Tax return information, if relevant.

Ensure Client is Ready on The First Day of Fieldwork

Reward performance.

- Buy the client's staff lunch or take them to a concert if they meet all their client assistance deadlines.
- Make it fun.
 - Assign points to each schedule, and award the points if the client meets the deadline. Allow the client to turn in “points” for prizes.
 - Wrap a prize in a box and do not allow the client to open it unless tasks are completed within timelines specified. Send along with the client assistance request, forcing the client to wonder what is inside.

Ensure Client is Ready on The First Day of Fieldwork

Offer monetary incentive.

- Insert language into the engagement letter reinforcing the need to meet commitments and add a monetary penalty if they are not ready as promised.
- Price the engagement assuming that the client will not be ready the first day of fieldwork, and then offer to refund a discount if they are.

Ensure Client is Ready on The First Day of Fieldwork

Proactively monitor progress.

- Do whatever is necessary to monitor progress.
 - Sometimes auditors will need to call or visit the client to ensure that things are on the right track.
- Ask the client to provide schedules as they are completed before “fieldwork” begins.
 - This gives the auditor the opportunity to troubleshoot potential barriers before fieldwork begins (e.g., wrong format, missing information, or schedules do not tie).

Ensure Client is Ready on The First Day of Fieldwork

Involve the client.

- Include the client in the planning process to the extent practical and necessary.
 - This is particularly true for new or revised requests.
- The auditor should ensure that the client understands what information is being requested and why.
- Sometimes the client can provide the information in a slightly different format.
 - If a particular format is desirable, explain why.

Ensure Client is Ready on The First Day of Fieldwork

Prioritize requests.

- Whenever practical, ask the client to provide supporting schedules for higher risk areas first.
 - This will allow the auditor to identify and address any potential material misstatements and issues early in the process.
- It is often human nature to do the easiest items first, which are not likely the highest risk areas. Save the client from themselves -- help them prioritize!

Ensure Client is Ready on The First Day of Fieldwork

Eliminate unnecessary requests.

- Avoid asking the client to prepare schedules for immaterial accounts.
 - This will, in turn, help the auditor avoid performing audit procedures on immaterial accounts merely because the client turns in a supporting schedule.
- Any time that the engagement team can save the client in preparing unnecessary schedules will be time that the engagement team can allocate to new or more important schedule requests.

Ensure Client is Ready on The First Day of Fieldwork

- **Stagger deadlines.**
- This will help the client better manage their time, particularly with larger engagements.
- In addition, consider when interim audit testing might be appropriate, and tailor the request accordingly.

Ensure Client is Ready on The First Day of Fieldwork

Give adequate notice.

- The key here is to give enough notice from the perception of the client.
- The auditor may feel that two weeks is adequate notice, while the client may feel that two months is more appropriate.

Ensure Client is Ready on The First Day of Fieldwork

Obtain documents in electronic form.

- Work with the client to determine the best format and delivery mechanism for schedules.
- In the age of paperless engagements, the more supporting schedules that can be obtained electronically, the better.

Ensure Client is Ready on The First Day of Fieldwork

Discourage housekeeping entries after the start of fieldwork.

- It is critical to communicate with the client up front about the size and nature of adjustments that will be posted after the start of year-end fieldwork.
- Some CPA firms even charge the client an additional fee for each client-proposed adjustment booked after the start of fieldwork (e.g., \$100 an entry).

How do serial killers get through the woods?

- They take the pyscho path...

Better Engagement Wrap-Up

Better Engagement Wrap-Up

- **Prioritize the tough stuff.** Address the higher risk areas of the audit first to flush out potential material known or likely audit adjustments, questions, and issues.
 - It is human instinct to do the easiest tasks first.

Better Engagement Wrap-Up

- **Set a reasonable expected audit report date – and stick to it.**
 - General audit procedures are performed either as of, or reasonably close to, the audit report date.
 - If the audit report date shifts, then additional hours are necessary to update general audit procedures through that date.

Better Engagement Wrap-Up

- **Review workpapers in a timely manner.**
 - This should include all levels through engagement partner (or even the engagement quality control reviewer, if applicable).
 - Ensure review notes can be cleared before staff leaves the “field” to allow for verbal discussion and clarification, as well as leveraging the knowledge and experience of those closest to the original work product.

Better Engagement Wrap-Up

- **Create a critical path plan for the project.**
 - Often called a PERT Chart (Program Evaluation Review Technique), which is used to schedule, organize, and coordinate project tasks.
 - Start with the end game in mind, the report release date, and work backwards with all key milestones.
 - A visual depiction of how all the milestones fit together to form a common goal ensures individuals understand how project success relies on his/her fulfilling their part of the plan, on time and on budget.
 - If one milestone slips, there is a trickle-down impact on all remaining milestones.

Better Engagement Wrap-Up

- **Upwardly manage those above you.**
 - This includes engagement managers, partners, and quality control reviewers.
 - Get buy-in to project plans, deadlines, etc.
 - Remind them of what was agreed to, holding them accountable for following through.
 - For example, if the engagement partner is supposed to have reviewed a critical audit area by X Date, remind him/her of the importance of meeting that individual milestone a few days prior.

Better Engagement Wrap-Up

- **Draft financial statements “in the field”.**
 - Include completing review and approval by client and engagement partner of the complete financial statements, including footnotes, supplementary information, etc.
 - Pro forma prior year financial statements early.
 - Complete relevant sections as audit areas are complete, including relevant footnotes, cash flow, and other information with each audit section.
 - This helps with gaining a full appreciation as to how each individual area “rolls up” into the financial statements, but also ensures the person most familiar with a section is compiling the information.

Better Engagement Wrap-Up

- **Draft all supplemental communications “in the field” and ensure “team” responsibility.**
 - Include internal control communications, presentations to those charged with governance, and other oral and written communications.
 - These integrated and supplemental communications absorb more hours if treated as an after-thought.
 - For example, ask each person assigned to an audit area identify at least one internal control improvement opportunity (related to any internal control objective).

Better Engagement Wrap-Up

- **Have the right attitude about properly performing the basic audit “blocking and tackling.”**
 - Common sense basics and core efficiency beliefs are often neglected under time and client pressures.
 - Practice does not make perfect, perfect practice makes perfect.
 - Having core efficiency beliefs, consistently applied on every audit, will develop good habits. Those in leadership roles must be obsessive about implementing the basics such as properly assessing risk, designing the audit plan, supervising staff, reviewing working papers...constantly considering “how can we change and improve what we are doing” is important.

Better Engagement Wrap-Up

- **Do not schedule SALY on the job!**
 - Same as last year is not always an acceptable approach.
 - Staff should always be prepared to defend and explain why any planned audit procedures were or were not performed.
 - Leave suggestions on how to change or improve next year's audit to be more effective and efficient.
 - Always ask two questions before any task, such as performing any audit program step, or creating any audit workpaper: (1) Do we need it? and; (2) Can we change or improve it?

Better Engagement Wrap-Up

- **Debrief the engagement.**
 - Hold a post-mortem meeting for each audit engagement to discuss what the engagement team should start, stop, or continue doing.
 - Update next year's client assistance letter, engagement time budget, and audit programs now, when everything is still fresh and "top of mind."
 - Celebrate successes, but also reflect on lessons learned.
 - Establish action plans for avoiding repeating the same mistakes in the future.

How many optometrists does it take to change a light bulb?

- 1 or 2? 1 or 2?...

Thank you!