MANAGING AND EVALUATING YOUR ACCOUNTANT

Successful management of an accountant starts with a clear agreement between all parties of the services to be provided. This will provide a sound basis for your on-going relationship. Successful management also requires that you effectively communicate important information, address problems as they arise, and continually evaluate the process and outputs throughout the engagement. Be mindful during the process that the accountant is an independent contractor, not an employee. While it is important to tell the accountant what needs to be done, it is not appropriate to specify how it is to be accomplished.

Management Tips and Ideas

Managing an accountant during different types of engagements can often be difficult or stressful, especially during an audit or review. However, for every engagement there is a process, and for every process a timeline with responsibilities can be defined, just as was done in Section 2 for selecting your accountant. A well constructed engagement letter is a significant help for managing many situations.

Although information was exchanged during the search and contracting process, always work to ensure that any gaps are filled in. Try to anticipate what the accountant initially will need to know about the organization, such as its history, programs, funding sources, legal entities, latest financial information and names of key personnel. Instruct staff to be responsive to the accountant’s needs, and to provide ongoing information in a timely fashion. Keep your accountant current on developments that may affect the fiscal function or the financial health of the organization. Strive to partner effectively with this important professional.

With all types of engagements, plan with the accountant which staff members need to be available when he visits and what tasks need to be accomplished beforehand. Let your accountant know in advance if it cannot be done, so that the accountant’s time and your organization’s money are not wasted by an unproductive visit.

The following four sections on managing audits, tax services, consulting services, and recurring services provide suggestions and ideas on roles and responsibilities during these types of engagements. As audits are the most common as well as most difficult engagements that CDCs face, the managing the audit section provides the most detail. Many of the suggestions in this section carry through for other types of engagements also.

Managing an Audit

Effective planning requires that the board of directors be actively engaged and that the organization adequately prepares itself for the engagement. It can alleviate stress, speed the process, and ultimately save the organization money.

Planning Ahead

1. Establish timeline and oversight responsibilities

   The board’s audit committee should meet with the CPA to discuss the overall approach to and general scope of the engagement. Particular attention should be focused on any recent financial or operational changes the organization has made and those areas where either the board or the CPA believe special emphasis is needed. Subjects might include new lines of business, or significant changes in organizational structure, financial
condition, sources of funds, the accounting system, internal controls, or compliance with laws, regulations, contracts, and grant agreements.

2. Develop a timeline for staff to submit the documents that the auditors will require. Consult with the CPA on which items are needed first in the process.

3. The audit committee should ask the auditor to inform it promptly of any significant fraud or other illegal act, or any weakness in internal control that warrants urgent attention.

4. A target date for issuance of the independent accountant’s report that is acceptable to the CPA, the board of directors, the executive director and the chief fiscal employee should be established before the audit is begun.

**Prepare information needs**

1. Accounting records should be current and reasonably accurate. Perfect accuracy is not expected. The CPA certainly will have adjustments to recommend. However, the CPA’s contract is to do audit work and not to perform accounting services.

2. All records should be in good order. This includes the source documents that support the financial transactions, such as vendor invoices in neat files.

3. Request that the CPA provides a list of documents, analyses and other information needed. Offer to prepare as many analyses, such as the schedule of fixed assets and accumulated depreciation, as realistically is possible, since doing so should help reduce the auditor’s time and therefore help control future audit fees. Have the CPA designate the format of desired analyses and reports.

**During the Audit**

Close attention by the senior financial staff and the executive director during the audit ensures that issues are addressed as needed.

**Ensure a productive working environment**

1. Dedicated staff should be available to assist and retrieve documents as requested.

2. Space should remain dedicated for the auditor’s use; staff should not interfere with whatever materials or accounting documents they are working with.

3. Photocopy machines and facsimile nearest the auditors should be working at all times, and staff advised, as much as possible, to use other equipment.

**Keep lines of communication open**

1. The executive director should conduct progress meetings with the CPA and the fiscal staff regularly to ensure that all parties are satisfied with the process and that any problems with workflow, delivery of documents, or relationships are addressed as earliest as possible in the process.

2. Notes should be kept on breakdowns and solutions.

3. Executive director should keep the audit committee and the board of directors informed of progress.

**Reviewing Auditor’s Reports**

The board’s audit committee, executive director and senior financial staff are accountable for reviewing all the contents of the draft report, asking questions about findings, and evaluating recommendations.

**Examine and question the final draft of the financial statements**

1. Inquire about the CPA’s satisfaction with the disclosure and content of the statements (parts of which may have been developed under pressure from the executive director or senior financial staff member); changes in significant accounting policies; the auditor’s conclusions about the reasonableness of sensitive accounting estimates; significant adjustments to the CDC’s financial records.

2. Review and understand the CPA’s observations of weaknesses in the organization’s internal control structure. (A CPA may report his observations either verbally or in writing, unless the engagement includes an audit of expended...
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federal funds, in which case it must be in writing. Regardless, it is preferable to receive a written report, because the document serves as permanent reminder of the CPA’s findings and a reference tool for taking corrective action.)

3. If the engagement includes an audit of expended federal funds the board’s audit committee also needs to review the written reports on internal control and compliance with laws, regulations and the provisions of contracts and grant agreements and the schedule of findings and questioned costs.

→ Explore the effectiveness of the organization’s fiscal function.

→ Evaluate the audit process, especially the relationship between management and the accountant. It is often appropriate for the audit committee to meet alone with the CPA to inquire about the conduct of management. This arrangement eliminates any inhibition that might exist with staff members present and allows the CPA to discuss any matter he may choose.

Discuss:

1. Disagreements with management that significantly affected or could have affected the financial statements or the audit report

2. Issues discussed with management prior to the engagement affecting retention of the auditor

3. Serious difficulties with management regarding delays, unreasonable timetable or unavailability of client personnel.

4. Discuss significant fraud or other illegal acts (which the auditor should already have reported to appropriate senior management)

→ After accepting the CPA’s final reports, the audit committee should present them to the full board of directors for formal approval.

Taking Corrective Action

Corrective action should be taken promptly once the CPA has made his reports. Not only are improvements likely to benefit the organization immediately, but action is required in some cases. If the engagement includes an audit of expended federal funds, the development of action plans is mandatory. Written action plans are strongly recommended as part of good financial management practice. Plans should state who will do what by when, how, and for how much.

→ Develop written action plans

1. Utilize the auditor’s reports. The CPA will have presented, in writing, (1) his observation of weaknesses in internal control and noncompliance with laws, regulations and the provisions of contracts and grant agreements, and (2) the schedule of findings and questioned costs. The schedule of findings and questioned costs includes for each current occurrence and each prior uncorrected occurrence, among other things, a description of the condition, its cause, the auditor’s recommendation, and management’s response. The organization is required to prepare an written corrective action plan for each item, including the person responsible for the action and the anticipated completion date. If the organization has a disagreement with any of the auditor’s findings, an explanation should be included in the relevant plan.

2. Consider the implementation cost. Although you may be required to take action, each corrective plan should be designed to produce benefits that are justifiable in terms of their implementation cost. For example, hiring another employee may be a way to achieve adequate separation of duties for internal control purposes, but it may not be financially feasible. A CPA can help design cost-effective action plans because of his skills and experience.

→ The board’s audit committee should approve all action plans and monitor their implementation.

→ Prepare written reports, if necessary, to the federal government on the status of action taken on findings that were reported in the prior year’s audit.

Planning for the Next Audit

While the engagement is fresh in everyone’s mind, a meeting should be held with the CPA to determine how both parties can improve the next annual engagement. The task will be easy if notes for
improving next year’s engagement are written down during the audit progress meetings. How can the planning of the audit be improved? Can the auditors request data sooner and be more specific about their needs? How can staff improve its preparation of information for the auditors? Does the filing system need to be reorganized? What systems were observed to be inadequate? Decide who should do what by when. Everyone will benefit in terms of productivity and efficiency, and, over the long term, the effort will help to control audit fees.