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Principles of report review; Don't forget self-review

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THE PRINCIPLES OF

REPORT REVIEW IS COMPARABLE TO THE QUALITY CONTROL PROCESS in a manufacturing operation. This observation was made at the report review meeting held on November 18 and 19 at Chicago's Union League Club. Thirty-two participants representing every United States office and Meredith Smith of the Montreal office attended the meeting, which was the first of this nature held by the firm.

The primary purpose of the meeting was to discuss and prepare a new report review manual which will replace one issued about ten years ago.

Although preparation of the new manual was the immediate goal of the meeting, part of the time was spent discussing the principles of report review. There was also a beneficial exchange of ideas concerning the review techniques and practices of each office.

It may be that our various review processes are confusing to some of the newer staff members. We have, among others, reviews by the seniors, supervisors, managers and partners—plus tax review, report review, cold review and task force review. I would like to cover briefly the principles underlying report review as well as to preview some of the more important points in the new manual.

REPORT REVIEW

by Robert E. Minnear

Atlanta Office

Report review is a basic policy of the firm established as a means of providing an independent review and challenge of all documents which carry a firm position. Report review is over and beyond the regular audit review made by the seniors, supervisors, managers and partners primarily responsible for an engagement. Independence is the keystone of the report review function. Of course independence is inherent in all aspects of our professional life, but independence in this sense involves detachment from the engagement. People responsible for the report review of an engagement should not have any audit responsibility for that client.

An important concept stressed at the meeting is that report review is a process rather than a department. In the larger offices, for the sake of orderly procedure, certain people will have the principal assignment of report reviewing most of the audit engagements of those offices, but it is not uncommon for these people also to have the responsibility of managing some engagements. For those audits, report review will be performed by other personnel of the office.

Report review is directed primarily to the observance of generally accepted accounting principles. It has been well said that report review

is the last line of protection. If the report reviewer is satisfied that basic auditing procedures have been followed and that there has been proper disclosure in the financial statements—all with due regard for the auditing and theory pronouncements of the AICPA and the firm—then certainly the reports issued will meet the high standards of our firm and our profession.

Report review is a process rather than a department

Report review is responsible for uniformity of reports and for adequate presentation. However, report review is intended to be much more than editorial review. Perhaps the name “report review” has misled some and given the impression that this process is confined to review of presentation of the report. The new manual emphasizes, as indeed did the old one, that report review is to be a review of the substance of the audit.

Donald J. Bevis stated at the meeting that an immediate goal of the firm is to establish the report review function in each office. This goal is in line with our general philosophy of autonomous local offices. At present some offices rely almost entirely on other offices to perform their report review function.

In the smaller offices the volume of reports is not sufficiently large to warrant the full-time services of even one person in report review—yet this situation does not preclude the establishment of report review in such offices. As previously noted, report review is a process rather than a department.

The critical factor in the determination of local report review is the availability of personnel at the appropriate staff level who are independent of the engagement to be reviewed. There will continue to be exceptions to the practice of local report review. For example, a client might be so large in relation to the total practice of an office that no one of supervisory or higher rank in the office would be sufficiently detached from the engagement to effectively perform the report review function.

Another example might be a specialized type of client, perhaps a stock brokerage firm. The only personnel in the office familiar with the special problems and audit techniques involved in brokerage accounting might be those actively participating in the audit. Size and complexity are the major factors which might require report review

by personnel of other offices. The functioning of report review, including its application to all engagements of an office, is the responsibility of the partner in charge. He will designate those reports to be reviewed by other offices.

There are very definite advantages to local report review. Readily apparent advantages are reduced expenses and fewer problems of coordination. Transportation costs of either working papers or report review personnel are by no means negligible. Furthermore, working papers may be needed by the report reviewer in one office about the same time that the papers are required in the originating office. Less apparent, but of equal importance, local review should facilitate greater participation by the report reviewer prior to the final drafting of the report.

Advance planning of report review is of great importance, but too often has been neglected. There are several major report review tasks which can and should be accomplished before the report is drafted.

The audit program should be reviewed and challenged by report review before the year-end field work is started. Since report review is concerned with the substance of the audit, an adequate program of examination is vital. The reviewer might wish to scan interim financial statements of the client to determine that changes in the business have been properly reflected by revisions of the audit program.

Report reviewers do not make the decisions on any accounting problems on an engagement, or for that matter should not even assist in making these decisions. They should, however, be kept informed of such problems. Quite often important problems are resolved well in advance of year-end. If possible, report reviewers should be consulted when important accounting and report presentation problems with clients arise. This will prevent poor client relations or embarrassment to the firm which might result from a reversal of a position on challenge by report review. We are not trying to conceal the report review process from our clients. Quite the contrary, our clients should be favorably impressed with the additional independent challenge to which their statements are subjected. Report review is one answer to the sometimes facetiously posed question, "Who audits the auditors?"

The new manual states that it is firm policy that "*all* reports on audit engagements and all financial statements, whether audited or unaudited, in connection with which the firm name appears . . . be independently reviewed by report review." This also applies to "plain paper" financial statements, formal letters to clients on accounting policies, letters of recommendations and management services reports.

You might ask, why must all reports — particularly so-called unaudited statements—undergo report review? Participants at the report review meeting agreed that we have an obligation to our clients to perform a professional job in connection with unaudited statements. We should not permit poor or misleading presentation because we are not rendering an opinion on the statements. We have a responsibility to keep our eyes open.

This is not so much a matter of legal responsibility as it is a matter of good business relations. Sometimes statements are submitted to us merely for typing or reproduction. Usually these are prepared by small clients who may not have top caliber accounting personnel. Poor presentation generally results from lack of knowledge rather than intention to mislead the reader of the statements. Yet even when our association with clients' statements is no more than stenographic in nature, our name is often associated with the statements to a greater degree than we would like to believe; therefore the additional report review time is justifiable. The extent of report review of unaudited statements is necessarily more limited than that of an engagement where an opinion is given. At a minimum, however, report review examines the statements to see that there is nothing obviously wrong. Personnel, timing, the method of resolving differences of opinion and

Don't forget self-review . . .

Curtis C. Verschoor, our Director of Education, adds the following reminder.

PERHAPS THE MOST IMPORTANT REVIEW procedure is self-review. This is the pride of workmanship that makes each of us take a cold look at the work we have done before we turn it over to our superior.

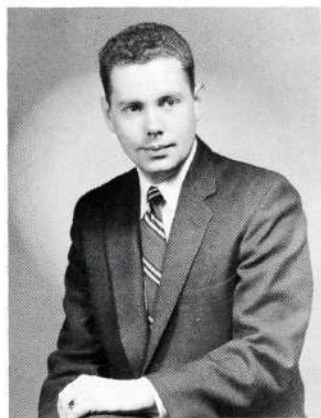
It's easy to fall into the trap of thinking that someone above us will find any slips or omissions in our work and point them out to us. We should all reread our own memorandums after we have written them to see that the thoughts they contain are well-organized and properly expressed. And we should look again at our working papers after they are completed to see that there are no open points, unanswered questions, or unexplained tickmarks.

the extent of report review are also covered in the manual. A report review check list is included to serve as an indication of the various items which might be considered in report review. *There has been no attempt, however, to establish the check list as either the maximum or minimum itemization of points to be considered.*

With more offices becoming fully autonomous for report review purposes, members will be exposed to this function and a greater number of people in the firm will be called on to serve in the report review capacity. Report review is not a matter of special training: An independent and challenging frame of mind is more important than technique. Mr. Bevis expressed the opinion that, just as a good report reviewer is a good auditor, a good auditor should be a good report reviewer.

Neither the profession nor government regulation requires the firm to maintain the report review process. Some public accounting firms do not have a comparable function. We believe, however, that the benefits of report review are unquestionable. Through this process we maintain our high standards of reporting. Even more important is the general improvement of the audit process which will result from the increased attention of report review to the substance of the audit.

About the author . . .



ROBERT E. MINNEAR graduated from Ohio State University with a B.S. degree in Business Administration and joined our Dayton Office in 1953. In 1958 he transferred to Atlanta. Mr. Minnear received his CPA certificate in 1955 with an award for the highest proficiency in Ohio and an Elijah Watt Sells award. He is currently serving on the Auditing and Accounting Theory Committee of the Georgia Society of CPAs.