University of Mississippi

eGrove

Touche Ross Publications

Deloitte Collection

1964

Cooperation between the controller and the auditor

Bernard Cianca

Follow this and additional works at: https://egrove.olemiss.edu/dl_tr

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation

Quarterly, Vol. 10, no. 4 (1964, December), p. 11-13

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Touche Ross Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

COOPERATION

Between the Controller and the Auditor

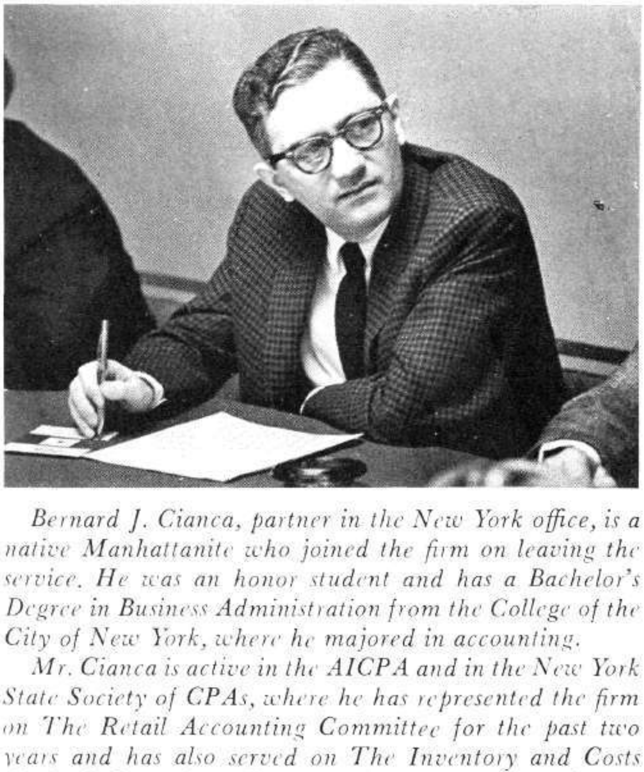
by Bernard J. Cianca

"Here come the auditors! Quick, get out the other books!" This is a remark we've all heard at one time or another. It is intended to be humorous, but I wonder how often the implied mental attitude does exist in fact: "Give the auditor what he asks for, but don't volunteer information; give him the records and let *him* figure them out."

All too often this attitude is compounded by the even more prevalent feeling that an audit is a necessary evil which will inevitably disrupt office routine and cause the essential day to day work to fall behind. I'm sure we've all experienced the anguish on the part of client personnel when they protest that "our people don't have time to pull all these vouchers," or, "why should we analyze these accounts? You're doing the audit!"

Unfortunately this attitude has not yet gone the way of the green eyeshades and the high stools. There still exists an unawareness of the relationship necessary for the mutual benefit of the auditor and his client in the performance and objectives of an audit. An understanding of this relationship is woefully overdue.

The aim of the Certified Public Accountant is to examine and evaluate enough financial data and information to enable him to express an opinion on the fairness of the financial statements he is asked to report upon. His main concern is the accomplishment of a professional audit which, for the sake of pure economics, he would like to see performed in the most efficient manner possible. The more efficient his audit, the fewer the admin-



Bernard J. Cianca, partner in the New York office, is a native Manhattanite who joined the firm on leaving the service. He was an honor student and has a Bachelor's Degree in Business Administration from the College of the City of New York, where he majored in accounting.

Mr. Cianca is active in the AICPA and in the New York State Society of CPAs, where he has represented the firm on The Retail Accounting Committee for the past two years and has also served on The Inventory and Costs Methods Committee, The Committee on Stock Brokerage Accounting and The Committee on Institutional Accounting. In addition, Mr. Cianca is a member of the New Jersey State Society of CPAs, The American Accounting Association, The New York State Association of the Professions, The International Council of Shopping Centers and The New York Credit and Financial Management Association.

istrative problems and the more time he will have for other engagements, for professional development and for practice expansion.

For the company being audited, the auditors' opinion is important in relationships with many people—banks, suppliers, stockholders, governmental agencies. An audit can also serve as an effective management tool. For these reasons alone a client should be interested in a quality audit. Nor should there be much trouble raising interest in an efficient audit, for the benefits can be readily measured in terms of dollars and cents . . . basically, the less time spent by the auditor, the lower the audit fee.

Evidently, both parties should be striving toward somewhat similar goals. This united purpose should foster a natural co-operative relationship. Why, then, is this spirit so lacking in many cases? I think three factors contribute to the situation: failure to recognize common goals, the idea that the audit is a once-a-year affair, and lack of adequate planning for an audit.

Realization of Common Goals

Exerting a united effort in attempting to achieve common goals is simply common sense. But how can client personnel be made to realize this? The key is to make management aware of the company's responsibility in this area. With understanding at the management level, it becomes a matter of having this awareness filter downstream. Influence properly exerted can go a long way toward attaining the desired working relationship.

The Audit—A Once-a-Year Affair?

All too often there is not enough contact between auditor and client during the year. Decisions which were reached months prior to the audit, important financial transactions, or knotty accounting and auditing problems which must eventually be dealt with oftentimes are not discovered by the outside auditor until the start of an audit.

Why shouldn't the outside auditor be kept informed as these matters develop? This would afford him ample time to consider how they should be handled and how they will affect his examination. Such foreknowledge greatly facilitates the audit at year-end. In most cases, the outside auditor should probably be informed prior to a final judgment or decision so that he can advise on the financial and accounting implications. It is also helpful for the outside auditor to receive interim financial statements which he can review to keep abreast of trends and developments from one period to another.

Another most important area pertaining to closer and more frequent contact and co-operation concerns internal control. An evaluation of internal control is essential to the independent auditor's determination of the tests he must perform in conducting his examination. It can not be overemphasized, at this point, that improvements in the system of internal control in use by a company can and will bear significantly on the outside auditor's work. He must, of necessity, rely on the adequacy of that system to set the tenor—the scope—of his examination.

An increasing number of companies now have internal audit staffs. Their work, if properly directed and if co-ordinated with that of the public accountant, can be an important factor in reducing time spent by the public accountant in the completion of his audit. Thus, the independent auditor should be given the opportunity to review the internal audit program. Because of the outside auditor's expertise in this area, he can perhaps suggest revisions which could bring about profitable results in scope and execution of the internal audit function and which, in turn, could mean a reduction in the scope of the external audit. The outside auditor should also review internal audit reports, the findings of which could lead to modifications and streamlinings of his own tests, as warranted. Again, this work—the review of the internal audit program and the review of the internal audit reports—can and should be accomplished before the time of the performance of the year-end audit procedures.

More frequent contact between the independent auditor and his client will be discussed later in this article when we cover ways for more effectively "setting the stage" for an audit.

Adequate Planning for an Audit

The third factor which has partially thwarted the co-operation we are discussing is lack of adequate planning by both the outside auditor and his client. In any joint endeavor, co-operation is not something that just happens. It results from well formulated planning, delineating each party's responsibilities.

In an audit, this planning should start early. Ideally, with the conclusion of an audit, a review should be made to determine where the problem areas were and what can be done to facilitate subsequent audits. In addition, it should be determined what additional work can be done by company personnel to decrease the auditors' time and expedite future audits, and what suggestions could be made to improve the systems and procedures in use, to tighten the necessary controls and to implement policies. Consideration of all of these will undoubtedly bring about attainable and desirable ultimate time savings.

There are other areas of planning (apart from the most obvious: changing from a calendar year to a natural business year) which directly contribute to an expeditious audit, and which should prove quite effective.

First—set up a schedule of the various sections of the audit, with a definite timetable as to when each section will be ready for audit.

Nothing is more time-consuming for an auditor than starting an engagement when the client is not really ready for him. The scheduling of the completion (by client personnel) of the various phases of financial and accounting data, information and analyses incident to the audit will allow for the optimum utilization of the manpower on both sides of the "desk," so to speak. Written instructions to the employees involved, properly reviewed by the outside auditor, should also be considered a part of this element of audit planning. The definition of the responsibilities of each party to the audit is likewise of the utmost importance.

Consideration should also be given to the outside auditors' performing—prior to year-end—as many of his audit procedures as practicable, such as: (1) review of the system of internal control, with the concomitant tests of transactions, (2) confirmation of accounts receivable, and (3) observations of physical inventories. Any work moved out of the pressure-period of the year-end closing will allow for greater participation on the part of company personnel (since their time at these earlier intervals might not be so heavily put upon), and will bring about those highly desirable frequent contacts which help eliminate last-minute surprises for both parties.

Second—provide the auditors with adequate facilities to perform their work.

Elementary as this sounds, it's surprising how often the outside auditor is hampered by poor working conditions. Lack of space and/or equipment, and placement at an inconvenient distance from the people with whom the auditor is working can waste much valuable time. It would be desirable to have the company appoint a representative to serve as chief liaison between the company and the outside auditors, and to have them instruct all employees to furnish whatever information the auditor might request.

Third—eliminate the auditors' "pencil pushing."

Many of the schedules necessary for an audit can be prepared by company personnel, saving considerable audit time. Trial balances, agings of accounts receivables, inventory summaries, property schedules, schedules of prepaid and accrued items, income and expense analyses can all be prepared by people familiar with the records in much less time than it would take an outside auditor. Often, it may merely mean making copies of existing schedules; some schedules can indeed be compiled over the course of the year—with a minimum of disruption of normal work routines. Needless to say, this preparation of detailed schedules is a corollary of the first item discussed above in respect of timing.

Clerical work, such as the pulling and refiling of invoices or vouchers, the preparation of confirmation forms, and necessary typing services should also be done by company personnel. It would hardly seem practical for a company to incur additional professional fees for clerical tasks which can and should be performed by regularly employed clerks who could probably fit such work in with their regular duties with comparative ease.

Of course, the outside auditor must also plan for his needs. Tasks for the clients' employees should be accumulated so as not to waste clerical time. (Don't ask, for instance, for an individual isolated voucher each time documentary support is necessary.) Logical grouping of the required services will help bring the spirit of mutual assistance to greater fruition.

* * * *

By way of summarization, I believe . . . to paraphrase an illustrious speaker . . . that clients should not only ask, "What can your auditor do for you?", but also, "What can you do for your auditor?" Co-operation, fostered by common objectives and nurtured by proper planning, can bring rewards of such great benefit to both the client and the auditor that we must not let the opportunity pass.