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# Management of Engagements

by Russell E. Palmer

Today, as client organizations grow larger and the scope and depth of services provided by CPAs expands, it is essential that more emphasis be placed on the effective management of engagements. This need is emphasized in *Statements on Auditing Procedure Number 33*, "An auditor typically works within economic limits; his opinion, to be economically useful, must be formulated within a reasonable length of time and at reasonable cost."

The ability to manage is especially important in view of the TRB&S integrated services approach. The job manager must constantly be aware of ways he can provide maximum service to the client within appropriate economic limits. Effective management, however, requires not only the efforts of the person primarily responsible for the engagement, but also effective utilization of management techniques by the staff member responsible for each area of the engagement.

The qualities required in a person moving up in the public accounting profession change and shift in importance as the individual progresses. In day-to-day service to clients, however, the presence of two qualities is essential—the ability to manage effectively and technical competence. Initially a person entering the profession is mainly concerned with the latter, but as he accepts additional responsibility the ability to manage becomes increasingly important.

This article outlines areas to be considered in managing an audit engagement. It is divided into four categories:

- Planning
- Controlling
- On-the-Job Training
- Review and Completion

## PLANNING

### *Preliminary review*

To be effective in planning the engagement, it is important that the individuals concerned have a knowledge of the client's industry. This knowledge provides the foundation for the business approach to the audit process. It enables the manager to ascertain areas of special audit significance, risk-type engagements and special staffing situations. It provides the auditor with industry information and ideas from which to formulate recommendations to the client.

The individual can best gain this knowledge by reading trade publications and inter-firm industry information concerning the client's industry. Annual reports of other companies in the industry should be reviewed, and it is often advantageous to refer to the Firm Directory and communicate with other offices having clients in the same industry. The other office can furnish a program of examination, the letter of recommendations, audit techniques utilized, information concerning special services provided for the client, and other pertinent information on engagement management.

Prior to the start of the field work, the in-charge accountant should review the previous year's working papers, memoranda, reports, the tax and correspondence files and the letter of recommendations. He should reacquaint himself with disposition of the problems of the previous year, and review the permanent file and program of examination. He should also discuss the engagement with the supervisor or manager to assure himself that he is familiar with all current problems and information involving the client.



*Russell E. Palmer, manager in the Denver office, had been in the Detroit office for five years before transferring to Denver at the beginning of 1962. He graduated from Michigan State University, where he was president of Beta Gamma Sigma and a member of Beta Alpha Psi.*

*Mr. Palmer is a member of the American Institute of Certified Public Accountants and of the Colorado Society of CPAs, where for the past two years he has served as secretary of the Insurance Committee. He also served on the Michigan Association of CPAs Insurance Committee for two years when he was in Michigan. He is a member of the National Association of Accountants.*

### *Budget Preparation*

A comparison of budgeted and actual time during the previous year should be reviewed before the current year's budget is prepared. The current year's budget should be developed to serve as an instrument for controlled allotment of time in each area of the engagement. It should also be specific as to the responsibilities of each individual on the job. The budget must clearly report variances in specific areas along with the individuals responsible and it is important that the reasons for the deviations be documented to provide a basis for future corrective action.

The audit engagement control file is an effective tool for controlling budget preparation, time accumulation and final analysis. This control file is established at the beginning of the engagement and includes, among other things, the audit time budget and summary, blank time accumulation sheets for participating individuals, the follow-up sheet of reasons for budget variances, merit rating forms and partially prepared dockets. All offices have copies of suggested detailed schedules to be included in the audit control file.

Effective management of the engagement demands that a realistic budget be prepared initially and that time be accumulated, analyzed and controlled on a current basis. In addition, the budget should be re-evaluated at the conclusion of the engagement and the reasons for budget variances discussed.

### *Timing of the audit work*

The first standard of field work concerns particularly the timeliness of the audit procedures and the orderliness of their application. The first standard recognizes that early appointment on a new engagement has many advan-

tages and that if early appointment is not made, the auditor must determine whether the circumstances are such that an adequate examination and expression of an unqualified opinion can be made. If, in the auditor's judgment he cannot express an unqualified opinion, he should discuss the possibility of a qualified opinion or disclaimer of opinion with the client.

Early consideration of current year problems and timing is also essential on the recurring engagement. This gives the client an opportunity to modify accounting procedures that the auditor feels might be improved and minimizes the necessity for consideration of problems at a late date which is disadvantageous to the client and the auditor alike.

In planning the timing of the audit work, the following should be among the items taken into consideration:

1. Necessary to the control of timing of the audit work is the preparation of a schedule outlining all important dates, specifying who is to do the work, how long the work will take, and tying the various phases of the program together so that the engagement will reach a timely conclusion in coordination with the client's closing and report requirement dates. PERT can be utilized effectively in certain areas of audit timing and control.
2. The auditor should document and adequately plan for important dates such as cash cutoff, physical inventory and receivables confirmation. Closing dates and a schedule of completion dates on work being performed by the client should be obtained as early as possible.
3. On larger examinations, consideration should be



given to cycling certain phases of the examination. This cycling should be scheduled so that all locations and areas will be examined on a systematic basis.

4. Consideration should also be given, where internal control warrants, to the completion of substantial portions of the engagement at interim dates. *Statements on Auditing Procedure Number 33* provides that it is acceptable practice for the auditor to carry out substantial parts of the examination at interim dates. Again, this allows the auditor to recognize problems at an early date. Where portions of the examination are being conducted at interim dates the auditing procedures should be properly synchronized to produce the most effective results. An example would be the simultaneous examination of securities, a cash count and confirmation of receivables at a financial institution.
5. There is also the possibility of conducting the examination at an interim date with a review to year end. When using this approach, an effective system of internal control is imperative. In addition, certain areas may require re-examination at year end.
6. The existence of EDP presents additional timing problems which the auditor must consider so that the audit activities will be coordinated with the systems department.

#### *Staffing*

Attention must be given to the experience, proficiency and training of the staff members on the engagement. The first general standard states, "The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor." The first standard of field work states, "The work is to be adequately planned and assistants, if any, are to be properly supervised."

The job manager should determine that there is a correct balance in staffing considering experience on the engagement and staff level of the individuals. Responsibilities, time requirements and the person to whom he is responsible should be clearly defined to each staff member.

The overall management of the engagement necessitates rotation of the staff when appropriate. It is also important that an individual remaining on an engagement over a period of time be rotated on different phases of the audit work in order to become acquainted with all aspects of the job. The staffing of medium and large jobs should provide for an orderly progression to greater responsibility.

Scheduling of staff requirements is also a responsibility of the job manager. It is important for overall office pro-

iciency that staffing requirements be submitted at an early date. It is also important that any deviations from the original scheduling requirements be submitted as early as possible to the person responsible for scheduling so that appropriate modifications can be made.

#### *Audit program preparation*

It is worthwhile that the existing program be challenged each year to find better ways to perform the audit procedures, gain like results in reduced time, revise and adapt the program to meet changes in the client's system and to provide better service to the client. The program should be updated on a timely basis and should be properly reviewed and approved.

#### *Pre-audit conferences*

A pre-audit conference should be held with the staff on each engagement to outline its overall details, the scope of our examination, and how all portions of the engagement fit into the completed examination. Current technical problems of the engagement should be presented and discussed.

Job policies relating to the particular engagement should be specifically explained at this meeting. Items discussed might include protocol in dealing with client's personnel, use of the telephone, working hours, facilities available for our use, and coffee breaks. It is the responsibility of the job manager to determine that the policies of the engagement are clearly defined to all persons connected with it.

A pre-audit conference should also be arranged with the client. In this conference, known problems connected with the current engagement should be thoroughly outlined for early consideration and disposition. The auditor and the client should discuss and clearly define timing requirements. A record should be made of dates with regard to the client's closing schedule, when our interim work is to be performed and when the report is required. Other items such as working space available and changes in our staffing should also be discussed.

At this conference, the auditor should thoroughly investigate the possibility of additional client assistance in areas such as partial preparation of workpapers, analysis of accounts, and accumulation of supporting detail. This type of work should not be performed by the staff unless client personnel is not available. Reduction in time required for the accumulation and recording of detail by the staff will provide time for efforts in other sections where greater service can be provided.

On an initial engagement, the pre-audit conference should take place before any actual planning is done and should be performed as part of the preliminary review of



the engagement. In addition to the items previously mentioned, the auditor should review and discuss in detail with the client the internal reporting system, the adequacy of the client's records and the accounting policies and procedures. Potential problems should be discussed since it is important that areas requiring special audit consideration be recognized and adequate provisions for them made at an early date. On initial engagements it is also important that the objectives of the engagement be discussed thoroughly with the client.

#### *Controlling the Engagement*

Effective communication is the key to controlling the engagement. All persons on the engagement should be impressed with the importance of communicating with the in-charge accountant and other people responsible for current progress and problems. Each staff member should frequently project the amount of time necessary for completion of work in his area, estimating date of completion, amount of time required for completion and anticipated deviation from the budgeted hours. The importance of self-review should be stressed to each individual in order to minimize problems and corrections necessitated during the final review.

Through utilization of this information, the time accumulation sheets, the time budget and summary, the timing schedule, and other audit control data, the job manager should continually evaluate the progress and accumulated time on the engagement. The job manager must be aware of all expected timing or budget deviations at the earliest possible date and, after review, should initiate action to correct the situation.

During the progress of the engagement constant communication with the client is also essential in order to recognize accounting problems not previously anticipated, deviations from the client's closing schedule, and revised timing requirements to be imposed by the client.

#### *On-the-Job Training*

Engagement management includes the implementation of an effective program of on-the-job training. Previously, the pre-audit conference with the staff has been discussed. This session should be utilized to inform staff members of the audit plan, discuss the audit program and to help the staff understand the overall scope of the examination and nature of the client's business.

In order that the staff may be thoroughly familiar with the client's business, a tour of the client's operating facilities should be considered. The staff members should be introduced to the client's officials and employees with whom they will be in contact. During the course of the

engagement, problems involved in the work performed by the staff should be covered on a current basis.

All staff members should be encouraged to review the completed working papers and financial statements in order that they may develop more quickly to a point of seeing the overall engagement picture.

A post-audit conference should be held with each staff member to discuss the overall engagement and his specific performance on it in order that he may evaluate his own progress and can be given constructive comments concerning possible improvement. Other aspects of on-the-job training have been discussed recently in a TRB&S Newsletter.

#### *Review and Completion*

The review of the engagement should be performed in the field before the staff has left. This will facilitate having the staff make corrections in the work they have performed and will allow time for discussion of certain aspects of the engagement with persons on the job. It also allows the reviewer to discuss problems with the client's personnel and provides an opportunity to be closer to the client's operating facilities and problems.

The discussions with individuals who have performed the work in a particular section should be designed to determine whether they are completely aware of the purpose and scope of their work, and should include discussions designed to determine where additional service to the client can be provided. The rough draft of the report should be reviewed with appropriate client personnel at the completion of the review.

It is necessary that continuing control be maintained during the completion of the engagement. Tax returns, the 10-K and other required reports should be prepared by the staff members before leaving. The letter of recommendations should also be prepared at this time for an early presentation to the client.

The person managing the engagement should make certain that time summaries, the summary of reasons for budget deviations, rating reports and other details have been completed prior to the completion of the project. Adequate provisions should be made for timing in relation to report review, typing and issuance of the report.

Engagements today are becoming more complex and effective management of engagements increasingly difficult. Effective planning and continuing control are essential in managing the engagement. To assure that the maximum service is being provided to our clients at a minimum of cost, each engagement must be planned care-

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## *With Alumni . . .*

**Atlanta**—Donald Peterson, formerly of the Atlanta office staff, was recently promoted to controller of the Atlantic-Munford Company here in Atlanta.

**Chicago**—Glen Ost diek, a manager on the Chicago staff who had been with the firm since 1952, resigned effective January 31 to accept the position of controller at Tuthill Pump Company.

**Detroit**—Leland E. Stenton, who now lives in Dallas, has been promoted from auditor to comptroller by the National Bank of Commerce there.

**Memphis**—Robert Colvard resigned on December 23 to join the firm of Harry M. Jay & Associates.

**Milwaukee**—Clarence Pelkey left the firm to accept a position as chief accountant with Climatrol Division of Worthington Corporation.

**Minneapolis**—George Maas left our firm to become controller of Tel-E-Lect Products.

Walter Tiffin was elected executive vice president of the Fidelity Securities and Investment Company in December. Mr. Tiffin served on the Detroit staff from 1952-1958 and on the Minneapolis staff from 1958-1961.

**New York**—Nicholas Kunycky, manager in our management services department, resigned recently to accept a position as assistant controller of the business machines group of Litton Industries.

Herbert Wender, a member of our audit staff, resigned to accept a position with Meredith-Avco Inc., as controller.

Stuart T. Schloss, a senior on our audit staff, resigned to join European Publishers Representatives as business manager.

James T. Anderson of our audit staff has resigned to

accept a position with Inter-Chemical Co.

**Rochester**—Cortland Brovitz and Company announced that Howard Davidson, formerly of the Rochester office staff, was named a partner at January 1, 1965.

**St. Louis**—Gerald Otten left our office to work for Binkley Steel Company in Warrenton, Missouri as corporate accountant.

Robert Byrd left the St. Louis office in February to work for Huntingburg Furniture Company, Huntingburg, Indiana as assistant controller.

**San Francisco**—Jim Harvey has left our firm to assume new duties as assistant to the president of Transamerica Corporation.

**Seattle**—Richard W. Farmer, an alumnus of the Vancouver and Seattle offices, has been appointed treasurer of United Pacific Corporation in Seattle. This is a large holding company with subsidiaries in the securities business, flour milling, resins and chemicals.

John M. Sangster, a former member of the Seattle management services staff, is now controller of Lloyd Plywood Company in Seattle.

Dean D. Thornton, who was manager of the Seattle office management services department until his appointment as assistant treasurer of The Boeing Company in 1963, has been elected to the Washington State Republican Central Committee and to the Executive Board of that Committee.

Harold L. Wright has taken a two-year leave of absence from the American Plywood Association in Tacoma to serve as a consultant to the University of Hyderabad, India, and to certain industrial concerns there. Mr. Wright was former manager in the management services department of the Seattle office before joining the plywood association.

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for many years. At least thirty or more years ago questions were raised as to the magnitude of company income, the monetary quality of its assets, and the extent of its liabilities under different conditions, such as inflation, deflation, prosperity, depression, and costs jointly incurred for the benefit of several departments or products. It is interesting

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*Conclusion*

*(Continued from page 30)*

fully and effective management techniques and tools must be utilized by all persons involved to determine that the engagement is controlled on a current basis.

Effective management will form a framework within which to work toward providing maximum service to the

that this is still recognized as a challenge, and certainly it is commendable that our new generation of accounting scholars are giving this problem continued attention. It is admitted that some of the work today is a formulation of definitions and reduction of certain concepts to models and equations, but there is every reason to hope that further attention will be given to this problem.

client within economic limits and will aid in assuring that the examination was made in accordance with generally accepted auditing standards. It will also assure a maximum effort in the professional development of the staff, and is essential in providing a basis for future growth of the individual.