

2-1925

## Staff Preparation and Editing of Reports

William H. Bell

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

---

### Recommended Citation

Bell, William H. (1925) "Staff Preparation and Editing of Reports," *Journal of Accountancy*. Vol. 39 : Iss. 2 , Article 5.

Available at: <https://egrove.olemiss.edu/jofa/vol39/iss2/5>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in *Journal of Accountancy* by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

## Staff Preparation and Editing of Reports\*

BY WILLIAM H. BELL

The subject assigned to me in this general discussion of professional accountants' reports is divisible into two parts: namely, staff preparation of reports and editing of reports. These divisions will be taken up in turn, although there is necessarily some overlapping.

The importance of consideration of the staff preparation of reports increases in proportion to the size of the practice. An accountant practising with only a few employes may have very little, if any, difficulty in controlling his staff in technical matters, whereas the larger practitioners are concerned with many problems involving execution of engagements and preparation of reports by the staff.

A very important feature in connection with the staff preparation of reports is instruction of the members of the staff. This instruction may be along general lines, as applying to the majority of engagements, and also specific, as applying to the particular engagement in hand. The general instructions will relate to technical policies and methods of the accounting concern, covering matters such as preferences as to forms of certain statements, the conditions under which comparative statements are usually rendered, the classification and location of certain items in balance-sheets and other financial statements, the conditions under which certificates will be rendered, the general scope and arrangement of comments, and the use of certain expressions under given conditions. In many of these technical matters it can not be assumed that the staff accountant will follow the methods preferred by the principals, or any other sound, practical methods, without being instructed by the principals. This applies also, of course, to general questions of auditing procedure. The various forms which this general instruction may take are not particularly germane to this discussion.

In addition to instruction in general matters such as have been mentioned, it is necessary to instruct the staff accountant

---

\*A paper read at a regional meeting of the American Institute of Accountants, Toledo, Ohio, December 6, 1924.

### *Staff Preparation and Editing of Reports*

---

regarding the particular engagement in hand, especially if it is a new engagement. This applies no less to matters affecting the report to be rendered than to the audit procedure to be adopted. It is entirely unnecessary, I am sure, to undertake to convince any one in this audience of the importance of the report as exhibiting the results of the audit work. All will agree that the accountant has failed in the execution of his engagement if he does not render a report which will meet the requirements of the client. Indeed, accountants are very often confronted with the necessity of meeting the requirements not only of their clients but of others, such as prospective lenders and investors.

It is seldom that the contents of the report on an engagement are prescribed by the client. Hence, it usually devolves upon the accountant to anticipate the desires of the client and furnish all data which it is thought will be required or appreciated. In deciding upon the contents of the report, consideration must obviously be given to the character, scope and purpose of the engagement. Accordingly, it is of the utmost importance to consider at the outset of the engagement the purpose for which the work is to be done and what should be communicated to the client in order to accomplish that purpose. When there can be any doubt that the staff accountant in charge of the work will be able without assistance to prepare a report which will meet the requirements, the matter should be discussed with him before the work is taken up or shortly thereafter. It is necessary to do this early because the accountant should have his report in mind throughout the progress of his work.

There are cases, of course, where the principals themselves know little or nothing regarding the purpose of an engagement and, consequently, of the kind of report that should be rendered, and have to depend largely upon the accountant in charge of the work to determine what should be done. It is extremely important, therefore, that the staff accountant be educated as to what is necessary to be considered in deciding what should properly be comprehended in a report under certain general conditions. One of the necessary steps in this direction is to instil into the accountant the importance of bringing into play whatever practical business ideas he may have and considering all angles of the situation from the point of view of the client in an effort to produce a report which will meet the requirements of the client.

While it would be out of place in this paper to discuss at any length the composition of reports designed for particular purposes, it may not be inappropriate to present a few general observations in order to exemplify the practical application of the principle that the report should be such as to meet the requirements of the client.

The engagement may be limited to the examination of certain specific accounts or the records of certain specific transactions, in which case a simple letter will usually prove adequate; or it may be to audit the cash receipts and disbursements for a certain period, when a statement of cash transactions will usually be required; or to audit the asset and liability accounts as of a certain date (usually termed a balance-sheet audit), when a balance-sheet will almost always be rendered; or to make a complete audit for a certain period, when a full report is called for, including a balance-sheet at the end of the period and a statement of income and profit and loss for the period. Any of these statements may be made comparative and may call for supporting schedules. When statements are rendered the report may also include a formal certificate or comments or both.

The aim should be to give the client just as much as is appropriate in the particular case, and no more. Accountants have often rendered reports including elaborate financial statements and statistics which have been of little or no practical value to the recipients. In some of these cases, the only report desired by the client was a concise letter or certificate covering certain conditions or transactions, or stating that the entries in the accounts, or in certain of them, were found to be correct. In this connection, detailed schedules of accounts and notes receivable and payable outstanding at a certain date may be interesting to a client three weeks after that date but be utterly valueless three months after. Schedules such as these should be rendered only when they are known to be useful.

While in some cases there may be considerable occasion for uncertainty in determining what may appropriately be included in a report on a complete audit, that uncertainty should diminish in proportion as the scope of the engagement is restricted. When anything less than a complete audit has been made, it is necessary to be explicit in the introductory part of the report regarding the scope of the work, and only such statements should

## *Staff Preparation and Editing of Reports*

---

---

be rendered as pertain to the particular phase of the accounts or affairs which has been under consideration.

In reporting upon a balance-sheet audit there is usually no reason to include a statement of income and profit and loss. In a report on a cash audit, assets and liabilities should ordinarily be disregarded. A report on a special examination or investigation should be designed to cover only the particular features in question, as concisely as possible consistent with adequate treatment of the subject.

In connection with reports on special examinations it may be said that there are some engagements where, from the client's standpoint, it is unnecessary to furnish statements in the report, but where conditions are such that the accountant may feel impelled to include the statements in the report for his own protection in case of dispute in regard to the facts verified. Such cases, however, are very rare, and when it is really necessary to establish the identity or the amounts of certain items but unnecessary to give complete statements, the desired result may usually be accomplished by stating certain "key" figures, such as the amount of the cash balance verified or the amount of the surplus.

One of the great problems of the professional accountant is the preparation of reports which will be satisfactory to the client and also to the banks, note brokers, or others to whom the reports will be furnished for credit purposes. The reason for this is that there is no satisfactory understanding and agreement by the three parties involved—the banker, the business man and the accountant—as to what information is to be supplied to the banker through the medium of the accountant's report.

The accountant may not, short of actual misrepresentation, disregard the wishes of his client, and when, as frequently happens, the accountant is restricted as to the scope of the audit, or as to the contents of the report, he is likely to be criticized by the banker for not conforming to the banker's ideas concerning the amount of detail information or the classification of items, or for failure to do something as indicated by qualification in the report. Considerable progress has been made toward promoting more thorough accord between bank credit men and accountants, and it is fervently to be hoped that in the not distant future business men and bankers will reach a definite agreement

whereby accountants will be enabled to perform service which will be uniformly satisfactory to both of them.

It is quite customary for the client to request the accountant, in reporting upon an audit, to render a full report for general use and merely a certified balance-sheet, often condensed, to be submitted to banks or others for credit purposes. The wisdom of this policy is doubtful. The best interests of the business man are likely to be served by concealing nothing from his bankers or other credit grantors. They are properly interested in his operations as well as in his financial condition, and, with respect to the latter, are entitled to sufficient information to enable them to apply their analytical methods to details and thus to pass judgment upon the credit risk involved. It must be admitted that the financial statements usually furnished to bankers are not such as to satisfy those who are keeping up with the advanced practices of business analysis from the standpoint of the credit grantor.

From these digressions we return to the consideration of the particular relation of the staff accountants to the preparation of reports.

It is most important to inculcate in the staff accountants the right attitude toward their reports. This attitude should be that of responsibility and pride. The staff accountant should be urged to aspire to such a degree of proficiency that he would be glad to have his reports known to any person as his own work. There is no accountant worth the name who does not welcome responsibility, and wise supervision by the principal will usually result in the assumption by the accountant of the desirable attitude with respect to his reports.

Now as to the physical preparation of the report. The first step in the process should be in the form of a memorandum kept in the working papers, where the accountant should record from time to time matters that come to his attention during the progress of the work that it is known or thought may have a bearing upon the report. At the time of the actual preparation of the report, all working papers should be gone over carefully for matters of interest outside of the bare skeleton of the accounts which is furnished by the financial statements.

The statements should be prepared first; then the comments and other parts of the report. The senior accountant or accountant in charge of the work should prepare the report,

### *Staff Preparation and Editing of Reports*

---

---

although, of course, the assistants may prepare detailed schedules and perhaps the major statements, under the supervision of the senior. It may be necessary for the senior accountant to consult the principal during or immediately before the preparation of the report, but the principal should not undertake to write the report. Unfortunately, many good technical accountants are deficient in ability to express their thoughts, and many also have little vision or imagination, but even with these shortcomings it is desirable that the responsibility for completing the work be placed upon the accountant in charge of the engagement. It is dangerous for the principal to try to write on a subject upon the basis of second-hand information furnished by memoranda. Further, even though the results obtained by requiring the staff accountant to turn in a complete report may be unsatisfactory, and much of the material may have to be rewritten, the effort on the part of the accountant has probably clarified his thoughts on the various subjects and it has certainly assisted in his development.

In most cases, it is desirable that the report be prepared in the office where the audit work is done, rather than in the accountant's office. This is especially important when the work location is in a different city. Preparation of the report in the client's office is conducive to limitation in the volume of working papers, which is generally desirable. If an accountant is going to prepare the report in a different place, he must provide in his papers all the information which he thinks he may possibly use, whereas if the report is prepared at the work location, the volume of the papers can be minimized and any additional information that the accountant may need will be readily available. There have undoubtedly been cases where accountants writing reports in their own offices have thought of something that they might have put in the report but, in the absence of full information, have omitted mention of it.

It is very important that the report be prepared immediately upon the conclusion of the audit work, so that the accountant will have all the facts fresh in his mind. It is next to impossible for an accountant to retain the atmosphere of an engagement sufficiently to do justice to any but the simplest requirements after he has worked on one or two other engagements.

In most cases it is desirable to review the draft of the report with the client, at least as to its salient features, before rendering

the report. This review may be merely an informal discussion, but should bring out anything of major importance that the accountant intends to include in the report. The review with the client may be made by the accountant or by the principal, and before or after the editing of the report. Perhaps as a rule it should be made by the principal, usually accompanied by the accountant, after the report is edited. This review will furnish a very desirable opportunity for contact with the client, enabling the client to suggest any desired amplification of the report and to obtain the informal views of the principal or the accountant on any subject connected with the business.

It is especially desirable to review the draft of the report with the client when it is intended that the report shall include criticisms or recommendations of changes of any consequence. There are many cases where an informal discussion like this has resulted in the amicable settlement of disagreements between the accounting firm and the client and has obviated considerable future difficulties. Further, a meeting of the principal and the client for this purpose has a very important psychological aspect in that it tends to avert any impression on the part of the client that the engagement has been executed mechanically, which is a vital consideration in the case of large accounting organizations. If it is impracticable to discuss the report with the client before typing, it is usually desirable to do so afterward.

Now to consider the editing of reports, or reviewing, as it will be called. Every report should be reviewed, no matter who writes it. In other words, if one partner in an accounting firm writes a report himself, it is desirable that he have another partner review it. The best practitioner is likely at times to become so absorbed in a subject that he may express a thought in such a way that it is understandable to no one but himself—and perhaps not to him after it gets cold.

The work of the reviewer should have a three-fold purpose: to do justice to the engagement, to protect his firm or himself and to encourage, and thus develop, the accountant who has written the report. Whenever practicable the report should be reviewed in the presence of the accountant who has written it. When this is done, the reviewer is able not only to obtain explanations where desired, but also to give the accountant the benefit of his review. Of course, a staff accountant may be required to read his report after it has been reviewed, or may voluntarily do



### *Staff Preparation and Editing of Reports*

---

---

so, and thus be advised of the changes that have been made by the reviewer, but that falls far short of being as satisfactory as the reviewer's sitting down with the accountant and discussing the changes with him at the time they are made.

The reviewer should be tactful in criticizing the report as prepared by the accountant. As previously stated, the accountant should be encouraged to assume responsibility for and take pride in his work. To this end, nothing should be done to discourage the accountant's initiative. The reviewer should be a good practical psychologist. He should recognize that all persons can not be treated alike. A critical remark that would be taken by one person as a stimulus to improvement would have the effect of discouraging another person. The reviewer's method of approach to the accountant may result in either of two diametrically different reactions: it may bring about a free discussion and the voluntary disclosure by the accountant of information which might well have been put in the report, or other pertinent facts; or, on the other hand, the highly undesirable effect may be produced of making the accountant uncommunicative by engendering in him a spirit of antagonism, or at least repressing his natural disposition to full coöperation. The reviewer should always encourage discussion of the report by the accountant, even to the extent oftentimes of being bored to distraction by a recital of irrelevant details. All this is conducive to obtaining results which will be beneficial to the client whom the accounting organization has undertaken to serve.

There are few persons who express the same thought in exactly the same manner, and very often there are several satisfactory ways of saying the same thing. Accordingly, it is unwise for a reviewer to insist upon having thoughts expressed in a report precisely as he would express them himself. Text matter in reports should, of course, be well written. While some consideration may be given to the characteristics of the persons for whom the reports are prepared, as a rule it is desirable for the expression to be such as to appeal to a cultured person. This does not mean that the reports should be masterpieces of English expression and evidences of great erudition, but that they shall have the right tone, be free from grammatical errors and ambiguities, and generally be easy to read. If the report as written by the accountant qualifies in these respects, it is a wise policy for the reviewer to make no changes. The work of the report reviewer

in an organization should not be such that it may be said of him that he is disposed to leave nothing in the reports as written but the headings.

The function of the reviewer, in short, is to bring his presumably superior knowledge into play with respect to all phases of the report, technical and otherwise, but merely as supplementing the work of the accountant in charge of the engagement who has written the report. While the reviewer, as stated, should allow a great deal of latitude to the staff accountant, his work should not, on the other hand, justify the imputation that he is merely a polisher—in other words, that he is concerned only with giving the report a good appearance.

In connection with the review of the report, it is desirable also to review the working papers. The reason for doing this is not only to see that the audit work has been done properly, but also to discover any information buried in the working papers that may have a bearing upon the report but has not been recognized by the accountant as such. The review of the working papers in the presence of the accountant has very great educational value and is one of the most important things to be done in controlling the staff.

The procedure which may best be followed in the majority of cases in the review of reports will now be discussed. First, the reviewer should ascertain, or should consider again, the purpose of the engagement, upon which depends largely the substance, and perhaps also the form, of the report. He should also consider the characteristics of the individuals who will read the report, and in some cases the facts with regard to the necessity or appropriateness of including in the report statistical data and other matters of an informative character. In short, he should determine, so far as practicable, what should properly be included in the report for the client's information and perhaps for the accountant's own protection, and any special form that seems to be called for in the particular case.

If there has been a previous engagement to examine the same accounts, it is well next to read the report on that engagement. Frequently this will disclose important matters that need to be considered in connection with the report under review.

The next step is to give attention to the formal assertion in the report as to what has been done—that an audit or examination has been made for a certain period, or as of a certain date,

## *Staff Preparation and Editing of Reports*

---

---

or covering certain specified features of the accounts or affairs—and what statements and text matters are rendered as exhibiting the results of the work. It is, of course, necessary that in the opening paragraph of the report the scope of the work shall be clearly stated. It is also desirable to state in some way specifically what is included in the report.

Assuming that a complete audit has been made, or at least one involving the preparation of financial statements, the next step is to review those statements. There are two things to be considered in connection with the statements: that they are such as to serve the client's purpose, and that they are correct from the standpoint of accounting principle. It is, of course, necessary that the figures in the statements and in all other parts of the report be determined to be correct; ordinarily, however, that matter does not receive the attention of the report reviewer, but is attended to after the report is typed.

Then the reviewer will give attention to the comments, if there are any. Comments, as all professional accountants know, are the most difficult part of the report, both to write and to review. It is impracticable to discuss the very large subject of comments at any length, but in general it may be said that the comments should be limited to what is essential and what will at the same time meet the requirements of the client; that they should contain as few qualifications as possible and as much information as is practicable and appropriate in view of all conditions. When there is anything particular to be told it should be presented as concretely as possible. Every practicable effort should be made to assist the reader in arriving at conclusions.

Although the limitations of this paper preclude extensive discussion of the subject matter of comments, it may not be out of place to present a few general observations regarding the treatment of subjects which have no direct bearing upon the items of financial statements. Professional accountants have failed to recognize or at least to avail themselves of many of their opportunities of furnishing in their reports valuable information with respect to the general aspects of the business whose accounts are audited. Among the features to which this applies are the somewhat ordinary matters such as insurance in force and the adequacy or deficiency thereof as protection to the business, unfilled orders and contracts in force, and defects in the accounting system. Perhaps the greatest field of usefulness which the

accountant is prone to overlook is the opportunity to serve the client by furnishing information in the form of analysis and interpretation of financial statements and business advice. Among the many matters that may be commented upon in this connection are: the progress of the business with respect to profits and liquidity of assets, investments in merchandise and receivables in relation to the volume of business done, comparison of the various features of financial condition and operations with those obtaining in similar industries; possible need of new capital or the desirability of capitalization or borrowing in a different form; office and factory organization and methods; and credit and collection methods.

The reason why so few accountants' reports contain advice to clients which may be utilized in the administration of the business is that those who are qualified to give such advice have not taken it upon themselves to do so, perhaps in the belief that the clients would not welcome an offer of assistance that was not specifically requested. Whatever the cause, professional accountants owe it to their clients and to themselves to cultivate the practice of assisting their clients in every possible manner, and it usually requires only a slight extension of the service contemplated by an audit to enable an accountant to marshal much interesting and valuable information which should be welcomed by his client.

Next and last, attention should be given to the certificate, if any is called for. In the certificate the whole report is summed up, and it seems well for the reviewer to consider all other parts of the report before he undertakes to pass upon the certificate. It may be said incidentally that in perhaps most reports on audits, as distinguished from special examinations or investigations, a definite certificate is called for, especially if the report is to be used for banking purposes.

In concluding these few remarks, it may be emphasized that it is only by thorough coöperation of the staff accountant and the reviewer that satisfactory reports can be produced.