Controlling Professional Fees

With the passage of the Sarbanes – Oxley Act of 2002, public companies almost immediately saw their annual financial statement audit fees nearly double. The larger companies, those falling within the reporting requirements for accelerated filing, saw that fee nearly double again over the next two years. These same companies were required to implement internal control testing and reporting, which in virtually all cases, significantly increased the need for additional staff and management in their accounting departments. SOX also required that management's report on internal control be audited and opined on by the companies' independent public accounting firm, adding more professional fees. In 2007, the smaller public companies, which were originally exempted from the internal control reporting requirements, will also have to comply.

SOX mandated the establishment of the Public Company Accounting Oversight Board (PCAOB). With the PCAOB came new regulations and more costs of compliance for public companies and their auditors as well.

Simultaneously, with the literal quadrupling of audit work, many independent accounting firms chose to abandon their audit practices, because of the complexity of the new regulations and accounting pronouncements, and of course, Arthur Anderson the facilitator of Enron, Waste Management and other debacles was forced into bankruptcy. As one of the largest accounting and auditing firms in the world, their demise left a gaping hole in the supply side, for the remaining audit firms to fill.

While the demand for audit and audit related services quadrupled, the number of audit firms available to supply that demand, for a higher risk product, diminished.

Contributing to this perfect storm, was a nation wide movement by many states requiring CPA candidates to have the equivalent of a master's degree to take the Uniform CPA Exam. Initially, many students didn't feel being a CPA was worth an extra year in college, and the graduating classes, in the first few years of this decade, had few accounting majors. While this was especially true in Northern Nevada, UNR has done a remarkable job of filling their accounting program and turning out highly qualified CPA candidates in the past few years. Nonetheless, that three or four year span when there were few accounting graduates caused a shortage of what would now be managers / controllers. It is no surprise that they cost more.

Public companies took the immediate financial hit with the passage of SOX, but, now, five years later, it affects all businesses through increased accounting and auditing costs. Whether your company is public or private, you can be pro-active in keeping your accounting and auditing fees as low as possible.

Start by insuring that the financial statements are appropriate for the requirements of the user. There are different levels of confidence expressed in the opinion letter signed by your CPA. Compilations are the least reliable, and are consequently the least expensive, followed by Reviews and then Audits. Reviewed financial statements are sometimes an acceptable alternative to audited financial statements, at a fraction of the cost.

Don't be shy. Ask your accountants what you can do to help them control the cost of the engagement. They may be able to do a substantial amount of the work on your engagement during a time of the year when they are less busy, and their rates may be lower. Those companies with accounting years ending in months, other than December, can sometimes benefit.

Make life easy for the audit / accounting team. Spend the extra time before they arrive to make sure that the books are balanced, accounts are analyzed and reconciled, the schedules requested agree to the general ledger, and the support is organized and tagged. While we negotiate a fixed fee prior to beginning each engagement, most firms charge by the hour. Do you really want to pay $125 an hour or more to have your accountant rummage through your files looking for support, or make a schedule your bookkeeper didn't have time to do? If your staff is already overworked, hire a temp. There are a number of great agencies and bookkeeping services who provide very qualified temporary help, and I guarantee it will be less expensive than paying your accountant to do the same work.

Identify large, unusual or complicated transactions during the year and discuss them with your accountant if you are unsure of the proper accounting treatment. Make a copy of the support at that time, and keep it in a file for the year end audit. Keep copies of equipment purchases, new leases, contracts, or legal agreements as well.

Always give your accountants a complete, well written, proof-read document. Certainly it is tiresome reading those footnotes, or the management discussion you spent so much time writing, but accountants are incredibly expensive proof-readers, so read through it one more time.

Designate someone on your staff as the primary contact to fulfill supplementary documentation requests and answer questions. We know we are a pain, but the quicker you get us out of there, the less of a disruption we will be.

Take care of your finance and accounting personnel. Strong, technically competent accountants are more difficult than ever to find. Encourage them to keep professionally current. Because of the constantly changing accounting standards, we offer accounting and tax update seminars to the chief financial officers and controllers of our clients. There are also one-day courses offered through the Nevada Society of CPA's.

Reliable financial statements are critical for helping you manage your business, and reporting results to creditors, investors and others in a consistent universally understood manner. Preparation is expensive both internally for your staff costs, and externally, from your independent accountants. If you implement these simple suggestions, it should help keep them in check.