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No 'I' in team

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A CPA firm provided audit and tax services to a technology consulting company that evaluated systems, made recommendations, and often sold hardware and software to customers throughout the country. The client collected sales tax and filed income and sales tax returns only in its home state. Tammy, the CPA firm's tax engagement partner, discussed potential nexus issues and related income and sales tax implications with the CFO. The CFO acknowledged Tammy's advice but did not feel it was necessary to address the issue any further. As a follow-up and good risk management protocol, Tammy sent a letter to the client about the issue and her recommendations but never discussed it with Alan, the engagement audit partner.

THE CLAIM

A few months after the audit report was issued, the client was sold to a supplier. The successor audit firm for the new owner determined there was a significant unrecorded sales tax liability. As a result, a substantial purchase price adjustment and reissuance of prior-period financial statements was necessary. Despite providing what separately seemed like good services, failure of the tax and audit teams to communicate resulted in a claim against the firm for failure to discover a misstatement in the financial statements.

THE RISK

The partners in a firm are considered agents of the partnership, and under the general principles of agency law, what is known by any partner of the firm is presumed to be known by all the firm's partners. This doctrine is called "imputation." When multiple services are delivered by different members of the CPA firm, the risk of a failure in communication increases.

THE LESSONS

What can be learned from Tammy and Alan's experience? Consider the following topics to instill a culture of teamwork at your firm.

Consider tone at the top

Tone at the top is linked to management's commitment to ethical behavior. Broadly, the team follows the example set by a leader. In the context of this article, it refers to a commitment of firm leadership to collaboration and support of holistic client service teams. When a firm's partners focus on a team approach, staff generally follow. Firms with aligned goals and values throughout the organization are likely to experience success.

We can infer based upon the actions of Alan and Tammy that working as a unified client service team may not have been a priority. If the appropriate tone had been established by firm management, Alan and Tammy may have consulted on numerous issues, rather than sticking to their siloed areas of practice.

How can CPA firms demonstrate a tone at the top that is supportive of teamwork? Consider the following strategies:

- Firm "all-hands" meetings should be held regularly and focus on items beyond financial results, including firm culture, values, and team building.
- All areas of practice should be represented in leadership to consider various perspectives in decision-making processes.
- Compensation and performance review processes should reward collaboration and participation in cross-functional engagement teams and business development efforts.
- Development of a firm mentoring system can foster the importance of the firm's tone at the top.

Build diverse client-service teams

What is diversity in a CPA firm? Education, experience, and expertise are all areas where diversity exists. In addition, an individual's personal background and life experiences add diversity. Diversity provides new, unique, and differing perspectives, an advantage in the complex world of public accounting. Studies have shown that companies with diverse boards of directors consistently perform better than those with homogeneous boards. Considering multiple perspectives when addressing a challenging client issue often leads to a better work product and improved client service. Moreover, this approach may reduce the likelihood of an error that may result in a professional liability claim.

If the audit team in our scenario had worked primarily for Alan and had similar experiences, their work may have reflected similar thought processes and conclusions as Alan. Someone with a different background may have identified the issue or pursued follow-up with Tammy.

How can CPA firms improve diversity? Consider the following strategies:

- Make a focused effort to hire individuals with diverse backgrounds and experiences.
- Consider adding experts from different areas of practice to the engagement team. This protocol provides a built-in method for adding knowledge to the team.
- Reconfigure engagement teams to allow partners, managers, and staff to work with professionals with whom they have not worked previously.
- Provide cross-functional training to share experiences throughout the firm.

Foster communication and collaboration

CPAs typically communicate with clients very well via client meetings, follow-up emails, engagement letters, and written reports. Unfortunately, with such a focus on client service, communication within the firm may suffer. Better communication *within* a CPA firm may facilitate better client service, with significant issues more likely to be identified and proper conclusions reached. New service opportunities may even be identified, as client needs are evaluated from a more holistic perspective.

Tammy and Alan clearly experienced a breakdown in communication. If Tammy's meeting had been discussed, the potential audit implications could have been identified, and the claim may have been avoided.

How can CPA firms improve communication? Consider the following strategies:

- Maintain an open-door policy to facilitate communication up and down the hierarchy and between functions.
- If multiple services are delivered to a client, schedule regular team check-in meetings to ensure that the impact of issues identified are evaluated by all engagement teams.

- Maintain regular formal and informal communications to share positive feedback and ease the abruptness of difficult discussions.
- Communicate continuously, not only during the engagement, to maintain a client knowledge base.

BETTER RESULTS

Happy hours and busy season breakfasts are opportunities for all staff to gain comfort with each other, not just opportunities for free food. Informal connections at such events can create strong bonds that matter when problems arise. While it may be uncomfortable to work as a team initially, working through problems with a colleague generally produces a better result. Even sole practitioners can benefit from a team approach by consulting with peers. Some new ideas developed through teamwork will succeed, others will fail, but they have zero chance if they are never considered.

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