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Move your audit into the future with centralized confirmations.

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Just over a decade ago, the typical auditor doing fieldwork lugged bags stuffed with heavy binders, staplers, hole punches and portable printers. Thanks to technology, that bulk has been reduced to a laptop and a portable scanner. Auditors no longer spend hours (or days) keying in a client's trial balance but import directly into an online platform.

Audit firms that embrace technology can grow their firms and become more valuable to their clients. Technology has the potential to free firms from tedious, time-consuming tasks and give auditors the time to provide real value to our clients. That value, in the form of insights and ideas that can help your clients improve their businesses, is what can differentiate your audit services from the crowd.

However, despite the technology that exists to help us every day, many parts of the audit process haven't changed in decades. Auditors still perform many audit tasks in the same way that they have for decades. Performing confirmations is a prime example of a process that has evolved through technology, and yet some firms still use outdated methods.

For those who haven't embraced an online confirmation solution, highly trained auditors fill out forms, stuff them into envelopes, and track the results. This work doesn't require a CPA or a degree in accounting.

Let's look at some of the problems with the traditional method of performing confirmations.

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No standard process and poorly managed workflow

Different managers or partners within a firm may use slightly different processes. This leads to confusion when a new team member works with different groups within an audit firm. This lack of standardized process may result in varying quality of work and may make it more challenging to review confirmations.

With big clients, it's especially easy for things to get lost in the shuffle. Plus, in the race to wrap up the audit and get the financials out to clients, confirmations are frequently a loose end that needs to be tied up.

Challenging to learn
Without a standardized process, each new group of staff auditors may be exposed to processes that vary across teams and between clients. Because new staff is getting inconsistent messages, they may be confused about what needs to be done. To add to the confusion, confirmations are just one of the many tasks auditors face with each client engagement, and it's easy to forget how the process works when an auditor doesn't perform them on a regular basis.

Performed by expensive and increasingly scarce talent
The talent crunch for the accounting profession isn't getting any better. The unemployment rate for accountants in the second quarter of 2019 was just 1.5%, so firms may be paying a premium for scarce talent. According to the latest annual survey from Robert Half, the midpoint salary for audit staff with up to one year of experience is $56,000, $62,500 for one to three years of experience and $76,750 for a senior auditor.

Most auditors will agree that a manual confirmation process does not require the expertise of a degreed accountant. Administrative level staff can be trained to do the work at a lower cost. Filling out the forms, getting signatures, and following up when there's no response, or when the response doesn't match client records, takes valuable time that an audit professional could use for other higher-value work.

Lost opportunity for higher-value work
Using highly trained auditors to perform an essentially clerical task means they lack the capacity to do higher-value work. As audit continues to be viewed as a commodity, adding value to your clients is the best way to differentiate your firm from the competition.

Lack of transparency into the process
When there's no standardized process and minimal visibility into the completion of the work, someone in the field may try to complete a confirmation that someone else has already started. It's also difficult to find out the status of confirmations as confirmation control documents are not always kept current. This means you need to ask the person doing them or determine the status for yourself.

Susceptible to fraud
Audit confirmations done manually are also susceptible to fraud. A harried team member may be grateful when the client provides the exact contacts to send confirmations to. But unless those contact names and information are verified, it's easy for an audit team to send confirmations to someone colluding with the client to overstate assets.

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A better way to perform confirmations
Moving confirmations to a centralized process can solve these problems.

A shift in approach

Centralizing audit procedures means changing from a client-based approach to a task-based approach. With the traditional client-based approach, the members of an audit team complete all the tasks in an audit for a client. Firms that use a task-based approach assign tasks to members of a dedicated group that performs that particular task for all audit clients.

In larger firms, this dedicated group could be paraprofessionals or administrative staff. With the current talent crunch for accountants, finding good candidates for this team may be easier, and will likely cost less.

Larger firms may also develop a group of specially trained professionals to perform specific audit procedures. While it may be beneficial for a CPA to lead this group, other members do not need to be CPAs or degreed accountants.

In a small firm, this may be the responsibility of an admin staff member who also has other tasks, such as quality control or final formatting of financials for distribution to clients.

What audit tasks can be centralized?

Any task that's repetitive and that varies little across many types of clients is a prime candidate for centralization.

Here's a quick litmus test for tasks that are amenable to centralization:

- Is the task routine and repetitive?
- Should this task be performed consistently across many types of clients?

Here are some examples of audit activities that can be centralized:

- Confirmations of all types
- Participant testing in limited scope employee benefit plan audits
- Employee benefit plan financial statement drafting
- Engagement letter drafting
- Adding signed engagement letters to audit work papers
- Engagement binder roll forward, clean up and set up for the new year
- Onboarding new clients into firm information systems
- Downloading PBC documents from a portal and inserting in engagement binders
- Importing and mapping PBC trial balances in firm software
- Preparation of preliminary draft financials
- Quality control of final financials
- Assembly of financials and reports for review by audit team prior to submission to the client
- Lockdown of binders following completion of the audit

While these tasks are amenable to centralization, it should be noted that these require a broad set of distinct skills, and some, such as quality control of final financials, require the expertise of a CPA. If your firm is considering centralization as a strategy for completing audits, it's wise to set priorities about what tasks should be centralized first. Centralizing confirmations is a good way for firms to learn about this approach.

1 roberthalf.com/blog/job-market/a-look-at-the-quarterly-accountant-unemployment-rate

2 roberthalf.com/salary-guide/accounting-and-finance

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Two basic models for centralization

Most firms that have adopted a centralized process choose one of two basic models: Direct Control or Hub and Spoke

Direct Control

With the Direct Control model, the central team initiates and directs the confirmation process for all audits. The central team contacts the client for names, addresses and other information needed for confirmations. They also keep the audit file updated with the confirmations sent and follow up with the audit team for sampling selections. With proper training, the central team could also make the sample selections.

Hub and Spoke

With the Hub and Spoke model, the audit team initiates the confirmation process. The audit team requests that the central team send out confirmations based on the confirmation strategy for a client. The primary contact for the client is the audit team. When confirmations are returned, the central team adds the confirmations to the client file and notifies the audit team about any exceptions.

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Advantages of using a centralized process

With a centralized process — whichever approach is used — the process is systematic, predictable and easier to manage, simply because there is only one approach being used by everyone. Here are some advantages noted by firms that have implemented centralized confirmations:

Standard process with greater visibility into the status
When every confirmation is performed the same way by the same small group of individuals, it's much easier to track the status of each one. The repetitive nature of the process means that the dedicated central team can process confirmations more efficiently than an auditor who performs these only occasionally.

Better quality audit evidence
Audit standards consider third-party verification to be high-quality audit evidence, so it's essential to receive confirmations in a timely manner. Because the dedicated team specializes in performing this task, they are better able to manage the process and reduce the variability in follow-up and logging responses. Better follow-up leads to an improved response rate. Due to their familiarity with the process, the central team can more easily identify potential problems with unusual names or addresses.

Cost reduction
By moving confirmations to a centralized model, most firms see a cost savings of 25 to 40 percent. The cost savings arise from a combination of efficiency, standard processes and automation. Firms realize additional cost savings using less expensive administrative staff and the ability to smooth the workflow around seasonal peaks. This also allows busy auditors to focus on higher-value work.

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Easier for everyone at the firm

New auditors fresh out of college can be overwhelmed by the complexity and multitude of tasks required in an audit, in addition to learning to use all the technology tools. A single standard process to be used for all audits and all confirmations eases the learning curve. For the central team performing confirmations, the repetitive nature of the work helps them refine the process, leading to further efficiencies.

Auditors have less work on their plates, so they can focus on value-added activities. They also have more time when they're in the field to delve into the more challenging issues that really matter. Reviewers have an easier time because the work product of the central team is consistent.

Easier for clients

Large clients with many accounts may be confused when emails from multiple team members are sent out requesting information about different accounts. With a centralized process, one person is the point of contact for all confirmations. Going through an audit is stressful enough for clients, so having at least one process that doesn't change from year to year can make it slightly less painful.

Faster

A standardized workflow for confirmations makes it routine to send out confirmations earlier in the audit process, close to year-end, rather than well after year-end or even during fieldwork. Any problems can be followed up promptly by the central team. Prompt follow up and completing confirmations early in the process can make the wrap-up phase shorter, since no one is waiting for a few final confirmations to come in.

Familiarity with the process leads to efficiency, and the possibility of processing confirmations in batches, rather than individually, also streamlines the process. Overall, less time is spent on confirmation preparation due to the familiarity that the confirmation team has with the process.

Fewer alternative procedures needed

With an improved response rate from a better follow-up, fewer alternative procedures are needed. Some firms even develop a central database of contacts at banks and financial institutions, which makes it easy to find the right person quickly when additional follow-up is required.

Less susceptible to fraud

With an experienced team performing confirmations, suspicious or odd-looking addresses are more apparent and can more easily be confirmed.

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Confirmations are an ideal way to learn to use a centralized process.

Once one process has been centralized, it's easier to apply this to other audit processes. Centralization can be the first step to completely automating processes and developing methods to leverage technology for other parts of the audit. It's easier to build just one bot for the whole firm than to let every team create their own bot.

Best practices for implementing centralized confirmations
(See also Appendix for tools)

Here are suggestions from firms that have implemented a centralized process for confirmations. These firms ranged from large to small, some with multiple offices around the world, and others with a single location.

Recognize this is a mindset and culture shift.
Changing the way that audits have been performed for decades is not easy. Younger team members, who have grown up using technology and who actively seek out ways to automate everything they can, will likely be enthusiastic. However, veteran team members may resist.

These team members may perceive the shift from a client-based approach to a task-based approach as relinquishing control to a group they don't quite trust. Building out relationships with skeptics through frequent and open communication can go a long way toward bridging the gap. Emphasizing a firm-wide commitment to the overarching goals of quality and a risk-based approach can assuage the concerns of skeptics.

Strong leadership is essential.
The firms that have been most successful with centralizing confirmations have leaders who commit to the new approach and make it happen. This requires the persistence to get everyone on board. Leadership at all levels of management must buy in to the new process.

Choose a champion.
Best results for implementing any significant change come when a single person owns the process. The actual position of the person within an organization is less important than their enthusiasm and commitment for the change and having the support of upper levels of management. This person may be a partner, a manager or an administrative staff member. Some small offices, however, may not need a champion to spearhead the process if the entire team is on board with the change.

Include all stakeholders in early discussions.
Early planning meetings should include a broad cross section of the firm, and especially the administrative or professional staff who will be doing the work. Getting buy-in from the members of the central team is critical. Early-stage meetings should also include those opposed to the change so that their concerns can be heard. Firms that have training coordinators should include those trainers in the transition team. Without training, the change will not happen.

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Map out the current workflow.

Large firms may have many ways of performing confirmations. Bringing everyone together to discuss the different ways that team members perform confirmations shines a light on the diversity of practice. Seeing all the ways that confirmations are currently being performed can help trigger open discussion on ways that the process can be improved.

Create a transition team.

The transition team should include the people who will do the work as well as those who will use their work product. If a technology solution will be used, IT should be included. Set timelines for developing the new process and rolling it out to the firm.

Develop a new workflow. (See Tools in Appendix)

The champion and the transition team should take the input from the early-stage planning meetings and prune the many methods down to just one. This process will change over time, so you needn't worry about getting it perfect the first time through.

**Devise a method for tracking status**.

A single source of truth in the form of a reliable tracking system allows visibility into the process. This tracking method can be as simple as a spreadsheet on a shared drive. Workflow management tools can also be used. Ideally, this system should be easy to update and visible to the entire team.

Document the new workflow electronically.

Putting the workflow in an easily accessible document ensures that everyone has access to the new method and keeps everyone on the same page. Consider adding a change log so that all edits to the workflow can be tracked and everyone understands the reasons for any changes.

Create standard templates.

Standard templates for collecting information from clients ensures that all the necessary information is completed. A standard format improves efficiency for the confirmation team.
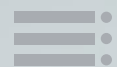
Get buy-in on the new process from a broad cross-section of your team.
Present the new process and workflows to the same group of fans, skeptics and administrative staff that were part of the early discussions. With buy-in from that group, it creates something that the group will actually implement. Make it clear that the new workflow may be tweaked over time, but the updated process will always be documented and available to all. National firms will need buy-in at the national level because that's where the methodology is determined.

Teach the new process to everyone.
Even with a champion driving the process, it's helpful to ensure that all team members have at least a rudimentary understanding of how the process works. This understanding allows them to explain it to new team members who join after the rollout. Clients will also need an overview of the process, so they understand what's required of them. Introducing the new system to all team members before the full rollout helps everyone become familiar with the new process before they need to adopt it.

Roll the new process to a small group of clients.
Rolling it out as a test will help refine the process, and help the central team learn it. All changes should be documented and discussed with the champion and the implementation team. A small firm might consider starting the process at a time of year when few clients have year-ends, i.e., not December. By default, this would be a small group of clients.

Roll out gradually to the rest of the firm.
Rolling the new process out gradually allows the firm to adjust to the change and keeps the central team from being overloaded. Pay close attention to the capacity of the central team. The central team may need to be expanded, or other tasks they perform may need to be shifted to others in the firm.

Stay the course.
There will be varying degrees of resistance, so persistence in driving this change forward is vital. Once team members see the clear benefits of a centralized process in terms of a better work product, better response times, improved response rates, easier review and better client relationships, they will be more willing to adapt to the new process.

The champion and transition team need to be consistent in their language and their practices so that the many methods used in the firm are pruned down to just one. If that consistency is broken, multiple processes may creep back in. Quality cannot be as easily assured when everyone is back to doing their own thing.

Cross-train to multiple team members.
Having one or two key persons handling the bulk of confirmations makes the process more consistent and efficient. However, it is also vital that more than one person knows the process so that confirmations aren't held up if that person is out of the office.

Keep on improving.
It may be difficult to get it right the first time, and no process will be applicable to all circumstances, so be willing to tweak the process as needed. Frequent and open conversations with the whole team about what's working and what's not will help refine the process. Be sure to document the changes in a change log so that there's no confusion about the current process and the reason for the change.

Explain the process to clients.
Clients who are new to audits may be overwhelmed by the many processes involved in an audit. Explaining the process will help them understand why they need to provide certain information to the team. Clients will be more willing to cooperate if the benefits of timeliness and ease of use are emphasized. Some clients may need help in the initial set up, particularly if technology tools that are new to them are used.

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Establish a senior team with stable leadership.

Conduct weekly meetings to discuss the process and develop strategies to overcome problems as they emerge, and to consider feedback from others in the firm to ensure that all concerns of stakeholders are addressed. Larger firms report that having a stable and committed leadership group of degreed accountants heading up their central team helps to ensure quality, continuity and integrity in the process.

Establish a core centralized team for firms with multiple offices.

Developing a service center approach, where a core group of dedicated staff manages confirmations and other processes for the entire firm helps not only with rollout, but also ensures a consistent work product. Because the process can be handled electronically, this also allows for remote workers, which can help with the talent crunch.

Frequent and open communication is a must.

Keeping the entire audit team informed about the process at all stages keeps everyone on the same page and helps to ease the concerns of skeptics. All big changes are built on relationships, so intentionally building out those relationships and communicating openly will help with the transition and will lead to lasting change.

Streamline the process further with a third-party confirmation provider.

To make the process even simpler, consider using a third-party provider such as Confirmation. With a reputable outside party performing the work, firm resources can be utilized to perform more value-added work, and the firm is assured of a work product they can trust. With everything on one platform, it's easy to monitor the status of confirmations and to follow up when needed.

When evaluating a vendor for confirmations, consider the following:

- How long has this vendor been providing this service?
- Does this vendor have the capability to perform other types of confirmations, such as legal, asset verification, A/P and A/R?
- Does this vendor have established relationships with banks in the U.S. and around the world?
- Have they completed their SOC1, SOC2 and SOC3 examinations?
- How safe is my client's data?

Use this process to centralize other audit tasks.

Once a central team is in place and confirmations have been successfully centralized, it's easier for everyone to envision how this process can be applied to more audit tasks. For example, a firm might consider auditing cash with a central team, or other straightforward testing procedures.

Central teams drive innovation.

The biggest surprise for firms that create a central team is the ability to drive innovation across the firm. Automation, AI, bots and blockchain are all on the horizon as technologies that can potentially transform audit, but it's difficult to implement any of these without a dedicated team. Firms that are leveraging these technologies and stepping away from the traditional model of audit are seeing reductions in cost while better managing risk and providing a better-quality work product. As audit becomes increasingly commoditized, and while talent becomes harder to find and more expensive, adopting a central methodology will soon become a necessity to remain competitive.

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CPA.com, an AICPA company, is known for bringing innovative solutions to the profession, either in partnership with leading solutions providers or directly through its own development. The company has established itself as a thought leader on emerging technologies and as the trusted business advisor to practitioners in the united states, with a growing global focus.

About CONFIRMATION

CONFIRMATION is the digital platform and global network trusted by audit firms, banks, law firms, and credit managers to quickly and securely verify financial data. CONFIRMATION invented electronic confirmations nearly 20 years ago, reshaping the audit confirmation process. Today, CONFIRMATION helps 1.5 million users across 170 countries confirm more than $1 trillion in financial data every year.

About the Contributor

Alan W. Anderson, CPA is founder of ACCOUNT*ability* Plus LLC. and offers more than 25 years of experience in the areas of accounting, assurance, and auditing. He is an expert on the topic of audit confirmations and the centralized confirmation process.

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Appendix

Appendix

Implementation plan for centralized confirmations

Strategic objective	Measurement	Strategy/Initiative	Due date time frame	Assigned to
Commit to centralization of confirmations	Appointment of team to spearhead implementation	Research the benefits of converting to a centralized confirmation process		Management
		Commit to change and develop the overall vision for the process change, including goals and timelines.		Management
		Appoint a "champion" to oversee the process change and grant permission to supervising or senior auditor to lead a conversion team. The champion can also be an admin staff member.		Management
		Engage key IT and administrative staff to create the conversion team. Consider including team members opposed to the change.		Management and champion
		Communicate management's intention to all staff. Explain how the new system will work and what the benefits will be.		Management
Understand current system	Flowchart of current system	Document the current process or processes used (who, what, where and how). Prepare flowchart.		Champion
Analyze current system	Document pros and cons	Analyze the current process and describe the pros and cons of each step in relation to auditing standards.		Champion
		Compare various processes used by different team members/groups		Champion
Create new process	Documented and approved system design	Design and document new process. Get buy-in from all implementation team members, including those opposed to the change.		Conversion team
		Identify staff involved in the process.		Conversion team
		Confirm appropriateness of current technology.		Conversion team
		Devise a method for tracking status of confirmations that will be a single source of truth		Conversion team
		Create standard templates for client information for all confirmation types.		Conversion team
		Review design with management, auditors and administrative staff. Modify if needed.		Conversion team, management and support staff
Create conversion plan	Documented and approved conversion plan	Create conversion plan with steps, responsibilities and timelines. Include training of new method.		Conversion team
		Review plan with management, auditors and administrative staff. Modify if needed.		Conversion team, management and support staff

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Implementation plan for centralized confirmations

Strategic objective	Measurement	Strategy/Initiative	Due date time frame	Assigned to
Perform test drive	Successful system design test.	Perform a "test drive" of the plan with responsible administrative staff and auditors.		Conversion team and support staff
		Prepare technical documentation of system. Include change log.		Champion
Confirm change	Management commitment and trigger timeline	Prepare and report final system design and documentation for management to reconfirm commitment.		Champion
		Develop and approve timeline for change.		Management and champion
Communicate change	Communication strategy complete	Develop communications strategy to staff and audit clients, emphasizing the positive benefits.		Management and champion
		Create "hotline" for prompt support and to answer questions regarding the change.		Conversion team
		Assign champion to serve as bridge between audit clients and administrative staff to ensure a smooth transition to the new process.		Management
		Perform communication strategy.		Management
Convert to centralized confirmations	Conversion complete	Using documentation and results of "test drive," train staff.		Champion
		Update process and documentation as needed.		Champion
		Set conversion date.		Champion and management
		Gather and convert data to new process.		Conversion team and support staff
		Review and confirm data to new process.		Conversion team and support staff
		Start using new system for all audit engagements.		Staff
Monitor and update system	System successfully maintained	Continuously monitor processes. Make changes to process as needed on a go-forward basis. Document all changes and reason for change.		Management and champion
		Update system as needed with technology change.		Conversion team
		Train new staff and all staff on updates.		Champion
		Communicate changes to staff and clients.		Management and champion

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Appendix

Workflow for centralized confirmations

Preliminary and ongoing:

- Develop database of key contacts at financial institutions
  - › Name, job title, phone and email address
  - › Update as new contacts are identified
- Develop and use (on a go-forward basis) a single source of all attest engagements to be maintained by centralized department (Central Team)

For each audit engagement:

1. ___ days prior to year-end or at Planning Meeting, and after EL has been signed and returned:

   a. Audit team collects information for confirmations and submits to Central team

2. Prior to year-end or shortly after (Central Team):

   a. Log information into tracking system or control list:

      i. Client name, financial institution, type of account, account number, date sent and date received

   b. Use CONFIRMATION for bank confirmations

      i. Confirm addresses in CONFIRMATION

      ii. Enter or update information in CONFIRMATION for signer, financial institution, account type and account identifier

      iii. Request client authorization to contact financial institution

      iv. When client authorization is received, initiate confirmations

      1. Enter balance sheet date and select accounts to be confirmed

      2. Review billing and initiate confirmation

   v. Download completed confirmations

      1. Save in client binder or forward to audit team

      2. Update tracking system or control list

   c. For paper confirmations:

      i. Send confirmation to responder. Keep a copy of what was sent.

      ii. When confirmation is received:

         1. Scan and save to client file or binder

         2. Update tracking system or control list

   d. Follow up with non-responders

      i. Verify that information on request is correct (Signer, institution, account identifier, address)

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Client information for confirmations (template)

Client name _____

Client ID _____

Signer phone number _____

Section 1 — Signer Information

Fill out this section for new clients, to add a signer to a client, or to update signer information

Signer name (first and last) _____

Signer job title _____

Address 1 _____

Address 2 _____

City _____

State _____ ZIP _____

Signer email _____

Section 2 — Account Information

Fill this section out for all confirmations

1. Balance sheet date: _____

2. Confirmation type (check one)

__ Financial
__ Accounts receivable
__ Accounts payable
__ Employee benefits
__ Legal

3. Responder name _____

4. Responder address _____

5. Account type _____

6. Account number or other identifier _____

7. Other information _____

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