

# AUDIT QUALITY ASSURANCE WORKSHOP

## SMP PRACTICE MANAGEMENT

CPA Samuel K. Maritim

Tel 0722366820

Managing Partner, Maritimes Associates LLP,

Author – How to Start, Grow & Manage Your SME Business Today

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# LEARNING OBJECTIVES



At the end of this Presentation you should have:-

- ❑ Learnt how to come up with charge out rates for an SMP
- ❑ Acquired tools and skills on Management and Operational Efficiencies of an SMP.
- ❑ Attained technics, competencies and expertise in use of ICT in an SMP.

# Presentation Agenda

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1. Procedure for Coming Up with Charge out Rates
2. Planning for your Firm
3. Practice Models, Associations and Networks
4. Leveraging on Technology and E Business

# 1. CHARGE OUT RATES PROCEDURES



- ☐ What is a charge out rate?
  - ☐ Cost of a service or a resource complete with a profit margin
  - ☐ These should include staff costs, Operational Expenses and a Profit margin
  - ☐ Best practice normally allocate a third to each parameter.
- ☐ Why a Charge out Rate?
  - ☐ Too little = Not Profitable
  - ☐ Too much = Loss of business
  - ☐ So you must balance between profitability and Costs
  - ☐  $\text{Audit Fees} = \text{Hours Spent} * \text{Rate Per Hour}$
- ☐ How do we charge fees?
  - ☐ Fixed Method
  - ☐ Variable Method (Based on Hours spent times Charge out Rate)

# 1. CHARGE OUT RATES PROCEDURES



- ☐ Benefits of the Variable Method
  - ☐ Clarity to the client
- ☐ Demerits of the Variable Method
  - ☐ Subjective = Based on judgments and estimates
  - ☐ It may lead to under recovery of expenses
  - ☐ Time taken is unpredictable
  - ☐ Varies from firm to firm
- ☐ Benefits of Fixed Method
  - ☐ Simple to understand and therefore widely accepted by SMPs
  - ☐ Less tedious and not complex
  - ☐ Has clarity and easily acceptable by clients who may want to commit
  - ☐ May be rewarding to SMPs if higher fees are accepted

# 1. CHARGE OUT RATES PROCEDURES



- ☐ Demerits of Fixed Method
  - ☐ Risky and may not recover all costs as work may be more than estimated
  - ☐ Once agreed increase may not be easy to get.

# 1. CHARGE OUT RATES PROCEDURES



## Computation Matrix

Resource	Qualifications	Experience Years	Hourly Rate	No of Hours	Totals
Partner	B.Com; CPAK	12	5,000	4	20,000
Manager	CPAK	8	3,000	6	18,000
Senior	CPAK	5	2,000	8	16,000
Junior	CPA - 5	2	1,000	8	8,000
					62,000
				20% Margin	12,400
				16% VAT	11,904
				<b>Totals</b>	<b>86,304</b>

# 1. CHARGE OUT RATES PROCEDURES



- ☐ Please Note
  - ☐ Never underquote for your services especially in the beginning
  - ☐ Low fee paying clients are a problematic clients on an on going basis.
  - ☐ Plan to adopt a Pareto Analysis approach = The 80/20 Principle
  - ☐ Once a client accepts a quote and pays the fees it is normally very difficult to get an upward review – Get right fee first time.
  - ☐ Elaborately document all terms and Conditions in a signed Engagement letter.
  - ☐ Point out areas where if scope increase fees may increase.
  - ☐ Explain to the client that fees are contingent on good records, documents and systems



# 1. CHARGE OUT RATES PROCEDURES



- ☐ Please Note
  - ☐ Be quick to improve client records, book keeping and systems as this will result in better audits and profitable fees.
  - ☐ If work is non profit making DO NOT be hesitant to disengage from it unless the client is ethically willing to put things right.
  - ☐ If you stick to the client this will be at the detriment of better clients and overall firm success.

## 2. PLANNING FOR YOUR FIRM



- ☐ Specialized Consulting or General Consulting
  - ☐ Specialized Service in areas like – Audit, Tax, Accountancy.
  - ☐ Specialized – On the basis of Sectors served – SMEs, Corporates, Not for Profit, Government etc.
  - ☐ General means – Everything including advisory – Business Plans, Strategic Advise, M&E.
- ☐ Why Plan?
  - ☐ “A genius without a road map will get lost in any country”.
  - ☐ To enable yourself to have direction.
  - ☐ So that you can attest/check achievement of targets. – What gets measured gets done.
  - ☐ Makes you stick to one thing and the business.

## 2. PLANNING FOR YOUR FIRM



- ☐ Your Plans or Sections of your Master Plan should touch on
  - ☐ Service Delivery – How to Plan, Execute, Review and Deliver to Clients on Time.
  - ☐ Risk Management – What safeguards are in place against risks.
  - ☐ Human Resource - How to Recruit, Deploy, Grow and Retain Staff
  - ☐ Client Relationships – Do they see value? Do they add Value to you?
  - ☐ Marketing and Selling Strategies – What product are you dealing in. Are your marketers understanding the product. Who will Market?
  - ☐ ICT/Technology – Are your operations ICT enabled?
  - ☐ Administration- Logistics
  - ☐ Finance and Budget- Capital and Cashflow

### 3. PRACTICE MODELS, ASSOCIATIONS & NETWORKS



- ☐ Decide which Practice Model you want to adopt
  - ☐ Sole Proprietor – Owner takes it all, Use of employed staff.
  - ☐ Partnership with Profit Sharing – Use staff but demands personal presence of all partners
  - ☐ Cost Sharing Arrangement – Where individuals or a group of firms meet their own costs but work client assignment jointly. Encourages expertise.
  - ☐ Multidisciplinary firm – Many experts around the client e.g. ICT, Assurance, Tax, Finance etc.

### 3. PRACTICE MODELS, ASSOCIATIONS & NETWORKS



- ☐ Use of Networks and Associations to Add value
  - ☐ A group of experts with similar business within the same economy or region working and collaborating together.
- ☐ Benefits of Networks
  - ☐ Business Referrals – Bigger networks may refer business to smaller firms.
  - ☐ Help Delivery of Service – Within a network are a pool of experts to serve the client.
  - ☐ Management Growth – Mentorship and Coaching towards higher standards.

# 4. LEVERAGING ON ICT & E-BUSINESS



☐ What is E- Business?

- ☐ Any kind of business or commercial transactions that include sharing data and information across the internet.

Why E- Business?

- ☐ Reach more consumers in a much broader market
- ☐ Enables businesses drastically reduce marketing costs
- ☐ Allows quick interaction with customers hence quicker decision making

What is required for E business?

☐ Software and Hardware Options

- ☐ LAN – (Local Area Network) - If you must work in a group.
- ☐ Document Management – Evidence all your Transactions
- ☐ Other Hardware Infrastructure – Internet and Back up

## 4. LEVERAGING ON ICT & E-BUSINESS



- ❑ Emerging ICT uses
  - ❑ Auditor software - Increase efficiency by use of audit software
  - ❑ Paperless office - Reduce physical space requirement by adopting ICT.
  - ❑ Use of technology to create a competitive advantage - Delivery of documents, invoices, cheques, Cash etc
  - ❑ Virtual office infrastructure - Is it any longer a requirement to physically work from office from 8am to 5pm? Set up a field infrastructure.
  - ❑ Questions about security and safety - Most e business transactions are prone to hacking and frauds

# CRITICAL REVIEW



Throughout this session we have:-

- ❑ Demonstrated a methodology on coming up with charge out rates.
- ❑ Elaborated and Discussed tools and skills on planning and leveraging on ICT for a successful SMP.



FINALLY



THE END

THANK YOU

Q&A

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