

# CFRR>>

Centre for Financial  
Reporting Reform



WORLD BANK GROUP  
Governance



GROUP  
CHALLENGE

Developing Client  
Relationship Skills

## Audit Training of Trainers



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## Acknowledgments

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- Croatian Audit Chamber
- Estonian Auditors' Association
- Society of Certified Accountants and Auditors of Kosovo (SCAAK)
- Institute of Certified Auditors of the Republic of Macedonia (ICARM)
- Council for Advancement and Oversight of the Audit (CAOA)
- Institute of Certified Accountants of Montenegro (ICAM)
- Philippines Board of Accountancy
- Chamber of Financial Auditors of Romania (CAFR)
- Chamber of Authorized Auditors of Serbia (CAA)
- Serbian Association of Accountants and Auditors (SAAA)

## Introduction

### Objective

The objective of this group challenge is to enhance the soft skills of participating trainers and to enable them to practice their client relationship skills and cross-selling techniques. By engaging in the simulated client meeting, participants are provided with an opportunity to practice these skills in a simulated face-to-face client meeting and thus tackle and solve some real-life business situations and problems. This is critical in order to acquire the complex skill set essential for practitioners of small- and medium-sized practices (SMPs) that go beyond technical competencies and proficiencies and involve a wide-ranging set of soft skills including competencies in selling, negotiating, communication and business acumen skills.

Outsourcing, technological advancements, competition, the shifting demands of small and medium-sized enterprises (SMEs), as well as the economic environment and regulatory changes are all having a rapid and significant impact on the accounting industry. This exercise is therefore designed to challenge SMP practitioners to think more strategically about the way they operate. Recently, smaller accounting practices have started to brand and market themselves as professional service firms that provide quality advice and expertise that are well outside the traditional accounting scope and has the most impact for small businesses. Many SMPs are revisiting their practice models to adjust to the changing business environment so as to benefit from the potential offered by rendering a range of professional services other than audits. These transformational changes include:

- Specializing in non-audit services and moving away from traditional audit focused practices;
- Investing in new technologies (cloud computing, data analytics);
- Engaging in talent management and developing both technical and soft skills (selling, negotiating, branding);
- Rethinking their pricing models and moving away from hourly or other time-based billing;
- Increasing their promotional efforts and placing a greater focus on branding and marketing, including developing a digital marketing strategy; and
- Developing networks and partnerships to extend their knowledge, share resources and enter referral arrangements.

By engaging in the cross-selling exercise, participants are encouraged to apply these new concepts and incorporate them into their client meeting presentations.

## Approach and Format

### Day 1: Preparatory session

Participants are divided into five groups to work on a ten-minute presentation for the management team of PejaSko Cheese Ltd., followed by a five-minute question and answer session. Participants are allowed 60 minutes to prepare their group presentations, which will be delivered at a simulated client meeting on Day 2 of the workshop.

Each team's objective is to identify cross-selling opportunities to help address any identified management concerns in the PejaSko Cheese Ltd. Case Study scenario.

Participants are encouraged to make a team presentation and use various approaches of their choice (e.g. open discussions, power point presentation, flipcharts, writing boards, etc.).

The following equipment is made available for participants to use:

- Flipcharts / writing boards;
- Camera;
- Video camera;
- Computers with internet access (one per group);
- Separate section or room for privacy and team strategy discussions.

In their presentations, teams will need to address a range of aspects. At a minimum, presentations should include all of the following:

- Identify issues and/or management concerns based on the PejaSko Cheese Ltd. scenario and describe services identified to address those concerns;
- Discuss any ethical considerations for the auditor;
- Pricing;
- Timing of the service.

### Day 2: Simulated client meeting

This session is 90 minutes in duration. Participants are asked to submit their presentations and other meeting materials to the moderators/facilitators before the session starts.

A short recap is provided by one of the session facilitators, who highlights the aspects that need to be reflected in the participants' presentations. Three facilitators act as representatives of the management team of PejaSko Cheese Ltd. during the simulated client meeting: one acts as the company founder, majority shareholder and Chairman – Mr. Svetozar Brankomat; the second as the Chief Accountant – Ms. Vesna Nebesna; and the third as the company's Lawyer – Mr. Gego Bioncev.

Participants are invited to deliver their presentations in random order. Total time of 15 minutes is allocated per team for the simulated client: 10 minutes for the presentation followed by a 5 question and answer session by the PejaSko management team.

Following the simulated client meeting, participants are invited to vote anonymously for their favorite team. They can vote for any group except their own. The votes are then counted and once the results are available, the winning team is announced. Members of the winning team are awarded the Certificate for “Client Relationship Expert”.



This activity was first delivered as part of the Audit ToT workshop on March 15-16, 2017, in Vienna and you can see the recording of the group challenge at the program’s homepage: <http://go.worldbank.org/D6CT7QUHM0>.

## Expected Outcomes

- Develop and enhance participants’ soft skills. By simulating a face-to-face client meeting participants practice their client relationship skills and cross-selling techniques; and
- Build awareness and develop further understanding of the ongoing changes in the profession. SMP practitioners are challenged to think more strategically about the way they operate and revisit their practice models in order to adjust to the changing business environment as well as benefit from the potential offered when providing a range of professional services more naturally suited to SME client profiles.

## Simulated Client Meeting

Cross-selling is more than delivering a sales pitch: it is a process that involves building relationships. Getting to know the client at both the professional and personal level will help SMP practitioners make more informed decisions about which services will benefit the client.

SME clients may not always know what their exact needs are. By listening and providing suggestions based on their needs, the clients perceive the SMP practitioner as adding value, which is an effective way to sell. Successful cross-selling comes down to the value that the practitioner can add to his/her clients.

To build and maintain a strong relationship with a client, the practitioner must have sufficient knowledge about the company and its issues and also needs to prepare a team strategy regarding how to approach the face-to-face client meeting. A good way to start the meeting is to introduce your client to the other members of your team. Some teams may decide to focus on fewer services, while others may provide a wider range of services and wish to discuss management's priority areas with them. Some teams may focus on business issues that are important for the Chairman/majority owner and founder (Mr. Svetozar Brankomat) of PejaSko Cheese Ltd. Other teams may also consider important services such as tax compliance and advisory, legal compliance and training, which are of greater concern to the company Chief Accountant (Ms. Vesna Nebesna) and Lawyer (Mr. Gego Bioncev). Although the Chairman has the final word on the company's operating and financial decisions, he often values suggestions by the Chief Accountant and the company Lawyer when making his decisions.

The boxes on the next pages provide further ideas and suggestions regarding the areas of focus that participating trainers could incorporate in their presentations.

### Management Concerns and Possible Services

Some possible services to address management concerns may include:

- **Succession planning**

Mr. Brankomat is middle aged and has a son and a daughter who could potentially follow in his footsteps in the future. At the moment, they are mainly interested in art and travel and are not really engaged in the business. Mr. Brankomat's state of health is unknown, but there are some indications that he should monitor his health more closely in the future. When he broke his leg two years ago, it caused a lot of inertia in the company's decision-making process. Luckily, this happened in the low-season so the business was not too adversely affected.

### Management Concerns and Possible Services

- **Improving Internal controls over safeguarding of company assets**

The owner does not know the exact number of the livestock he owns at any given time. The animals roam around freely and come to the main barn to feed and for milking. One of the barns which was being renovated caught on fire and completely burned down near the year end, and because of this unfortunate incident the company decided not to physically count the sheep and goats this year and instead to value the livestock at the same amount as last year. Counting live animals is always problematic as they prefer to roam around and some never return to the barn. The company is relying on auditors to come up with ideas about how to count the animals more accurately. Possible solutions could include traditional methods or more technologically advanced solutions, such as using aerial pictures, chipping and geotagging or via GPS.

- **Litigation support services**

After year-end part of the inventory of unpasteurized goat cheese was returned to the company by a couple of local stores. This inventory was brought back because the shop owners complained that their customers had experienced stomach problems after eating cheese from a particular batch. The company owners maintained that the stomach problems had been caused by “too much celebrating on New Year’s Eve, as usual”, rather than the quality of product, especially since “this has never happened in the past”. Legal support services may be required should the unhappy customers decide to initiate a court case against PejaSko.

- **Product branding, benchmarking and marketing**

The market for cheese is very much divided between different producers. Since customers tend to change their preferences quite often, the company’s market share is estimated at 6.5 percent.

- **Human Resources / Remuneration schemes**

The chairman has a fixed salary and is entitled to profit sharing in the form of a dividend, based on the company’s annual results. The current shareholding structure is as follows: the Chairman of the Board and founder, Svetozar Brankomat, owns 85 percent of the company while a group of 10 local farmers owns the remaining 15 percent of the shares. Traditionally, the company has been mainly profitable and has been able to provide its shareholders with solid and profitable earnings. However, due to strong competition and saturation of the local market, the profits have declined over the last couple of years, which concerns all of the shareholders. The Chief Accountant receives technical assistance from the auditors every year to calculate the maximum dividends, which are then presented to the shareholders who determine the size of the dividend for the accounting year.

### Management Concerns and Possible Services

- **Taxation services (both compliance and advisory)**

There have been some recent changes in the Personal Income Tax law but it is unclear at present how the company will be affected. Despite the fact that the Chief Accountant is highly intelligent and experienced in the field, she needs some guidance from the auditors regarding recent changes in Personal Income Tax. This tax requires the company to withhold tax from individual suppliers of raw milk in certain circumstances. It is unclear at present how the company will be affected and whether a provision for withholding tax is due. The company's Lawyer is currently conducting investigations regarding these matters, mainly by approaching other companies in similar situations and asking them how they plan to proceed.

The other tax related issues concern withholding taxes on dividend payments. The company pays a withholding tax to its shareholders who are not very familiar with tax laws and are therefore unable to verify the accuracy of the calculations.

In a recent article in a local newspaper, Mr. Brankomat was featured in an interview speaking about his great deeds for the local community. These have included financing a small statue of a community benefactor in front of the local school which was designed by a talented artist who happens to be Mr. Brankomat's son. In the interview, he also explained how the company had donated a certain amount of cheese to local families in need. In addition, Mr. Brankomat has financed a few children's playgrounds for the local community featuring logos of the various cheese brands produced by PejaSko Cheese Ltd. He is considering initiating a larger project in the future: a PejaSko Cheese amusement park for children promoting the great nutritional qualities of local milk and cheese products. There may be potential tax benefits for the company regarding these charity donations and social responsibility investments that should be explored further.

- **Training and skills development**

The accounting team is generally regarded as very competent, although the accounting manager tends to make estimates that are too approximate and mostly undervalued (this seems to be because of the majority shareholder's influence). Some technical assistance will be necessary in connection with the preparation of the financial statements, although it is mainly the Chief Accountant who is responsible for this process (i.e. the annual report and financial statements).

The Chairman has a limited understanding about the data contained in the financial statement and is only interested in the amount of taxation that the company pays (possibly minimal). In some instances, the Chairman requests explanations of certain figures and budget variances from the Chief Accountant. The minority shareholders receive the

### Management Concerns and Possible Services

company's audited financial statements but they have limited knowledge and interest in financial matters – they are only concerned in maximizing the dividend payment they will receive (this is usually the issue which causes many disputes) and minimizing the amount of tax the company pays.

- **Management accounting/business planning and forecasting**

The final operational and financial decisions regarding the company are made by the Chairman of the Board and founder, Mr. Svetozar Brankomat, who is also solely responsible for developing the company's strategy. Mr. Brankomat is well experienced in running the business and knows the production process well. However, he finds issues related to accounting and auditing overwhelming and although he likes to have the final word on everything, he relies on advice from the company's Chief Accountant. After preparing a limited scope quarterly financial statement, the Chief Accountant presents it to the chairman/owner. In some instances, the Chairman requests explanations of certain figures and budget variances from the Chief Accountant. In addition, every six months the company reports the limited financial performance indicators (unaudited) to the banks that loaned the money. Developing a more comprehensive management reporting system with key performance indicators may be helpful for decision making purposes.

- **Advice on financing**

The company is hoping to expand its sales by taking advantage of the trend for healthy lifestyles and new diets: more people are aware of a lactose intolerance to cheese made from cow's milk, and the fact that sheep and goat cheese contain less fat, etc. However, this expansion will also need an investment in advanced technology and know-how, which at present is not available in house.

Further, the company is considering expanding its export sales: approximately 20 percent of its current sales comprise exports to neighboring countries. The company is also considering entering its products into the European Union (EU) market. The company assumes that it will have to meet some additional health and safety requirements in this case, but it is unsure about the details. There is also an expectation that the company will have to invest in new machinery and equipment, which have to be purchased in order to penetrate the EU markets.

- **Marketing research, cost benefit analysis and/or feasibility studies**

The company is planning to expand its activities and to enter the EU market by expanding its cooperation with international grocery chains. Management is aware that in order to do so, the company needs to invest in new technologies to improve the cheese preparation process, while also taking into account better health and safety measures (Hazard Analysis

### Management Concerns and Possible Services

and Critical Control Points or HACCP – an internationally recognized system for reducing the risk of safety hazards in food). Details of the improvements required and how much it would cost the company is currently unknown. The company is considering hiring an external specialized firm to help with this process.

- **Assistance with HACCP standards implementation**

In order to be competitive and eligible to compete in foreign markets, the company will require assistance in implementing HACCP standards.

- **Assistance with legal and tax frameworks in EU markets**

The company will need to understand the legal and tax framework as it expands into foreign markets.

### Ethical Considerations

The emergence of advisory and consultancy services has been driven by the growing demand from SME owners for specialist advice to help them achieve a business advantage in a complex marketplace. Much of this advice originates from traditional forms of services and is requested from SMPs' audit clients.

This is not surprising as auditors are professionals trained to provide services from an external perspective with an independent viewpoint. An additional factor is that SME owners already have a relationship with their auditors which is built on trust.

There are, however, potential threats that need to be considered by SMP audit firms that also provide business advice services to audit clients. For example, there is the possibility of creating a “familiarity” threat, whereby the auditor becomes too close to the company that he/she is also auditing. Another factor that needs to be considered concerns possible over-reliance on income from a single source, whereby a financial dependency threat is created.

Any potential threats need to be carefully considered by the SMP audit firm and appropriate safeguards should be put in place to ensure that the requirements of the International Ethics Standards Board of Accountants (IESBA) Code of Ethics for professional accountants are complied with.

### Pricing

Traditional accounting firms usually base the fees they charge purely on a system of hourly or other time-based billings. Accounting literature discusses many disadvantages of the traditional hourly billing system. For example, some literature argues that the interests of professionals and clients are not aligned with these arrangements since the customer wants the work done efficiently while the firm wants to charge for more hours.

Recently, new concepts such as value pricing and total pricing concepts are emerging that allow SMP practitioners to approach how they price their services in very different ways. These new pricing concepts allow clients to enjoy a better customer experience. At the same time, they maximize opportunities for the SMP practitioner to cross-sell additional services, and ensure that the interests of the practitioners are better aligned with those of their clients. These new pricing concepts conform better with the fundamental laws on economics and consumer philosophy.

Some examples of the new value based concepts include:

- Basing prices on a percentage (10-20 percent) of savings achieved;
- Agreeing on a fixed or total price upfront to avoid any potential surprises to the client and so that customers can compare value to price before they agree to purchase the service;
- Offering several levels of service packages and different pricing options for each package;
- Providing a service guarantee whereby clients are eligible for total or partial reimbursement of the fees paid if they are not completely satisfied with the service.

### Timing of the Service

The teams may need to consider the following aspects while preparing for the client meeting:

- The audit work is now in the execution phase. As this is a busy period for the SMP firm, it needs to ensure that staff is available to undertake proposed assignments, should they be accepted by management;
- A good strategy to meet client expectations in a timely manner is to prioritize the services offered as follows: immediate concerns that cannot wait; medium term needs; and longer term needs;
- Assess whether the professional firm has the expertise to provide the proposed services on a standalone base or determine which other approaches are available to

### Timing of the Service

ensure the availability of expertise and resources. One possible solution would be to market the professional firm as being part of a network to extend its range of expertise and for greater functional and geographical diversification.

## Management Representatives

You are asked to meet with key management representatives from PejaSko Cheese Ltd., including: Mr. Svetozar Brankomat (majority owner and Chairman of the Board), Ms. Vesna Nebesna (Chief Accountant) and Mr. Gego Bioncev (Lawyer).

### Mr. Svetozar Brankomat (Majority Owner and Chairman of the Board)

Mr. Svetozar Brankomat is the company's founder, Chairman of the Board and majority shareholder. He is closely involved in the company's operations and likes to have the final word regarding any operational and financial decision.

Mr. Brankomat is also solely responsible for developing the company's strategy. Mr. Brankomat is well experienced in running the business and knows the production process well. However, he finds issues related to accounting and auditing overwhelming and although he likes to have the final word on everything, he relies on advice from the company's Chief Accountant.

He is middle aged and has a son and a daughter who could potentially follow in his footsteps in the future. At the moment, they are mainly interested in art and travel and are not really engaged in the business.

Mr. Brankomat's state of health is unknown, but there are some indications that he should monitor his health more closely in the future. When he broke his leg two years ago, it caused a lot of inertia in the company's decision-making process. Luckily, this happened in the low-season so the business was not too adversely affected.

He founded the company back in 1995 and expanded it from a small family shop into a successful local cheese producer. Mr. Brankomat is a natural entrepreneur with a positive outlook on the future, realizing that bad times come and go.

In a recent article in a local newspaper, Mr. Brankomat was featured in an interview speaking about his great deeds for the local community, such as financing a small statue of a community benefactor in front of the local school which was designed by a talented artist who happens to be Mr. Brankomat's son. In the interview, he also explained how the company has donated a certain amount of cheese to local families in need. In addition, Mr. Brankomat has financed a few children's playgrounds for the local community featuring logos of the various cheese brands produced by PejaSko Cheese Ltd. He is also considering initiating a larger project in the future: a PejaSko Cheese amusement park for children promoting the great nutritional qualities of local milk and cheese products.

**Mr. Svetozar Brankomat (Majority Owner and Chairman of the Board)**

He frequently engages in long conversations about the company. Sometimes he fails to respond to questions either quickly or directly because he gets sidetracked.

Mr. Brankomat is considering expanding the company's export sales. At present, approximately 20 percent of its sales comprise exports to neighboring countries. The company is also considering entering its products into the EU market. Mr. Brankomat assumes that it will have to meet some additional health and safety requirements in this case, but he is unsure about the details. There is also an expectation that the company will have to invest in new machinery and equipment, in order to penetrate the EU markets.

One of Mr. Brankomat's longstanding concerns is that he does not know the exact number of the livestock he owns at any given time. The animals roam around freely and come to the main barn to feed and for milking. He is relying on auditors to come up with ideas about how to count the animals more accurately.

**Ms. Vesna Nebesna (Chief Accountant)**

Ms. Vesna Nebesna (chief accountant) is suitably qualified to carry out her combined responsibilities of Chief Accountant and HR manager, especially since she has been working for the company from the beginning. Ms. Nebesna is highly appreciative of Mr. Brankomat and often praises his knowledge, good qualities and sales skills.

The final operational and financial decisions regarding the company are made by the Chairman of the board and founder, Mr. Svetozar Brankomat. However, he finds issues related to accounting and auditing overwhelming and although he likes to have the final word on everything, he relies on advice from Ms. Nebesna.

She is generally regarded as very competent, although she tends to make estimates that are too approximate and mostly undervalued (this seems to be because of the majority shareholder's influence). The predecessor auditor also supported these assessments.

Some technical assistance will be necessary in connection with the preparation of the financial statements, although it is mainly the chief accountant who is responsible for this process. She is also interested in receiving advice from the auditors regarding some other issues which have been a concern for the company such as taxation, including the ongoing legal changes, and improving ways to count the livestock.

**Ms. Vesna Nebesna (Chief Accountant)**

Ms. Nebesna is straightforward and direct when discussing issues. She dislikes being bothered too much because she is very busy with her daily responsibilities. She is easily irritated so it is best to approach her when she has sufficient time.

**Mr. Gego Bioncev (Lawyer)**

Mr. Gego Bioncev (lawyer) is the legal counsel for PejaSko Cheese Ltd., where he works on a part-time basis.

His main areas of responsibility include ensuring the company complies with legal matters as well as with safety and health regulations.

Mr. Bioncev provides some support with taxation matters (e.g. investigating the impact of changes to tax laws and regulations), and plays a role in the order and sales processes (mainly approving orders when Mr. Brankomat is away on business trips or on vacation, reviewing new customers' legal documents, and assessing claims provisions). Additional duties include reviewing annual salary adjustments, helping to assess the company's ability to continue as a going concern, and providing any litigation support, on a part time basis.



