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Condo Management

## *Who is our Client?*

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*Who exactly is the client in an audit, review or tax engagement?* The engagement letter is usually written to the **board of directors** of an association. Often, it is signed by the **management company**, as an agent of the board. However, it is the actual **membership** of the association to whom the board is accountable.

### ***Primary client - the membership***

It is our firm's strong belief that even though we are generally "recruited" for bids by the management company, and may report to the board of directors, we serve the members of an association. It is these members who pay their dues each month and rely on the honesty and reliability of the board to oversee the proper utilization of those funds. It is to these members that the state of California has legislated that a copy of the year end report must be distributed within 120 days of the fiscal year end. It is these members who live in and use the common areas of the association and who will elect the next board of directors based upon their performance.

However, the CPA must also interact with the board of directors and the management company. This is another very important aspect of the engagement. In some facets of the review or audit, we feel that the board and the management company are "sub-clients." Let me explain it further.

Our main objective is to ensure that the financial statements are complete, accurate and properly reported. In this instance, our client is the association membership. This is the primary focus of the audit or review engagement. We want to ensure that the

members are properly informed of the financial status of their association.

### ***Obligation to the board***

However, another objective in our firm is to educate the board of directors and assist them through the complexities of association management. This is a secondary focus of our engagement, and these issues we direct to the board. There are items which are not of such significance whereby they must be disclosed in the actual audit or review report. Instead, they are matters relating directly to the board's role in an association. We use a "management letter" to communicate these points to the board. These may be suggestions concerning internal control, civil code compliance, documentation, or other items which come to our attention. Since the association is run by a volunteer board of directors, some of whom have little experience or expertise in the area of community associations, we feel that these recommendations are useful to them as they learn better how to manage their association.

### ***The importance of the management company***

Lastly, we are concerned about the management company itself. As we are engaged to audit or review an association's

financial statements, we work closely with the manager, who generally has all the records and has had a history with the association. As we are working with the management company, we also provide suggestions to allow them to be better managers. Such suggestions may be the area of internal controls, accounting procedures, civil code compliance or other items as they come to our attention. The manager has the responsibility to be a bit of everything - accountant, attorney, landscaper, construction manager, etc. Thus, it is impossible for them to know everything about everything. Laws and procedures change quickly and we feel that it is our responsibility to inform the managers of these changes. So, in this instance the manager is also our client. Additionally, we as CPAs have the opportunity to work with many management companies and by doing so we can see what works and what doesn't, and may be able to share some of these ideas.

### ***Put priorities in order***

The scenario I've just presented can cause some problems. It is difficult to have three distinct groups of individuals with whom you work, and to whom you are accountable. Then, what is known as a "conflict of interest" can arise. It is important that the CPA firm have a policy as to whom their client really is, and set priorities as to what influence each of these factors will have on an engagement. When a board of directors or management company have too much control over an accountant, it is possible that the CPA loses objectivity and independence. It is then that the CPA starts to worry more about getting the job, rather than getting the job done correctly. It is unfair to put undue pressure on the CPA to not disclose any information. Luckily, most CPAs will not allow their integrity to be jeopardized in such a manner.

As the financial watchdogs of society, it is our responsibility to properly report and disclose an association's financial position. This is a very important function which should not be taken lightly. The individual members of the association should be assured that the CPA is working on behalf of them. The direction and assistance of the board and management company is invaluable, but must be put in perspective with the goals of the engagement.