

WHITEPAPER

The True Costs of Full-Time vs. Seasonal Audit Seniors

THE AUDIT GROUP'S GUIDE FOR HOW TO RETHINK RESOURCING TO BUILD A MORE FLEXIBLE, EFFICIENT AND COST-EFFECTIVE WORKFORCE ECOSYSTEM.

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How Flexible Talent Gives High-Performing Audit Firms Room to Grow

Today's audit firms face a dilemma: the pressure to take on more work and to grow their practices, against the backdrop of double-digit attrition, workforce compression, and widespread burnout. Add COVID-19 and increased cost sensitivity into the mix and you have a very real growth ceiling... when what's really needed is room to grow.

This is why clever companies are embracing a transformed model. It incorporates into the permanent workforce "just-in-time staffing", in the form of quality audit consultants who understand auditing and the nuances of clients' industries.

The variable workforce model releases the pressure valve for audit firms that battle attrition, compression, and the Full-Time Equivalent (FTE) conundrum, but that buckle under the considerable weight of seasonal demand.

And the growth ceiling... is gone.

Smart audit firms need not pick a side: full-time or flexible. The two are not mutually exclusive; the "new nimble" is win-win. Inhouse departments can retain lean full-time teams to enable managerial scale and handle core competency work, while being supported by on-demand, as-needed audit seniors.

Makosi's research shows that a blended complement of full-time and seasonal audit seniors mitigates risk, boosts the capacity of the in-house team, and optimizes spend. As the global economy begins to re-set itself, the companies that are best positioned for growth see flexible talent as the secret sauce of high-performing firms.



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Assessing the Costs of Full-Time vs. Seasonal:

THE COST OF AUDIT CALCULATOR (CoAC)

Employing a full-time audit senior means a host of costs on top of salary and bonus.

More specifically, the true cost-to-company of a permanent staff member extends to region-specific taxes, the costs of employee benefits, the costs of recruiting and training staff, staff development expenses, and more. Also critical to consider is the average industry turnover rate and the costs of making a bad hire.

To highlight the real costs of full-time vs. seasonal audit seniors, Makosi has created the Cost of Audit Calculator (CoAC). This user-friendly tool enables partners, audit managers, and HR managers to identify hidden hiring expenses and compare permanent talent with equivalent flexible resources, dollar for dollar.

Instead of comparing one full-time hire to one on-demand contractor, audit firms should envisage the cost of an employee as a pool of expenditure.

Example 1

An audit firm in the USA requires an audit senior with 3 years of auditing experience, specific to the client's industry, which is Financial Services.

The Cost of Audit Calculator compares the cost of hiring a full-time auditor (\$95,000

salary and \$152,713 total cost to company) with engaging a flexible contractor.

The Cost of Audit Calculator estimates the savings from engaging a Makosi audit senior as \$1.6 million annually.



Total cost-to-company for one senior associate \$152,713

The result of the savings is calculated based on taking the annual salary of one senior staff member and adding the necessary additional costs to equate to total cost to company for that staff member.

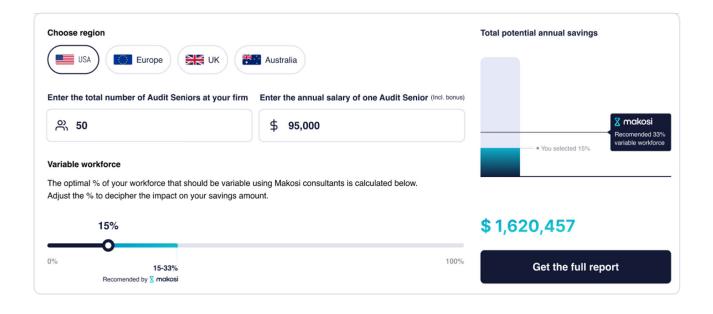
Total cost to company includes items such as:

- Taxes might include payroll tax, Federal Unemployment Tax Act (FUTA), workers' compensation, etc. In the USA, we estimate this at 9.5% using the IRS publication 15 2022 revised publication.
- Benefits, according to the December 2021 news release from the Bureau of Labor Statistics cost employers approximately 30% of the employee's salary for private industry workers. In 2017, to Joe Hamzida, Senior Lecturer at the MIT School of Management, stated benefits would cost employers approximately 35% of the employee's salary. These include vacation, health coverage, 401k plans, life insurance, and dental insurance. To be conservative, we assume 25% for the purposes of this analysis.



- Recruiting and training, says the Society for Human Resources Management, averages out at 6-9 months of the employee's salary. According to a recent study by Training Magazine, companies spent \$92.3 billion in 2020-2021 on training. This also ties into turnover rate, which according to CompData's BenchmarkPro survey has an industry average of 25%. A recent survey finds that turnover in large CPA firms (those with revenues in excess of \$75 million) is 17%, and one in every six firms experiences annual turnover of 20% or greater (Inside Public Accounting National Benchmarking Report, Platt Consulting Group, 2015).
- When it comes to the cost of a bad hire, the US Department of Labor in 2019 estimated this to be equal to 30% of an employee's salary on average. For the purposes of our scenario, we assume again, being conservative that our hypothetical firm hires great candidates at least 75% of the time.

The CoAC also calculates the optimal percentage of the clients workforce that should be variable. This is computed by evaluating the workforce compression between busy season and non-peak season and establishing how many permanent staff members would be needed to meet demands in the non-peak months and the Makosi variable force will be used to meet the additional demand in the busy season.



ANNUAL UTILIZATION RATE

Unique to the audit industry is the need to consider the optimal utilization of billable hours and the realities of workforce compression as a function of busy/off seasons.

Here's an example: If a single staff member bills 1500 hours per year, with their heaviest workloads in January, February and March, and an uneven/declining workload from April to December, they are under-utilized for nine months of the year.



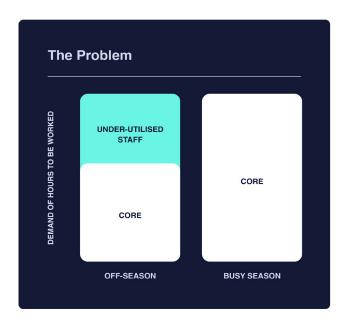
Makosi's experience shows that, given the demands of busy season, it is an industry norm for audit staff to work overtime during a compact period of time, to meet regulatory and other deadlines. Thus, busy season is defined as anything over 115% utilization.

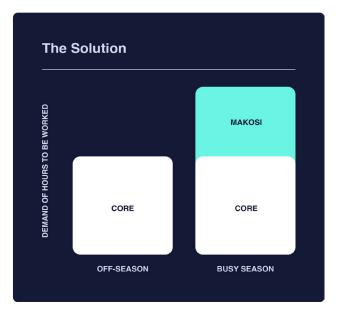
We have defined under-utilization as below 100%.

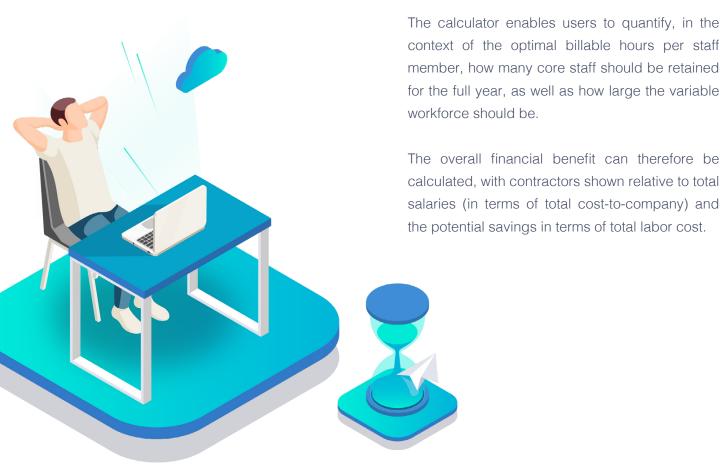


Workforce compression – the uneven spread of core staff utilization throughout the year – can be analysed and optimized using the Cost of Audit Calculator, to yield the ideal percentages of core vs variable staff a firm should have for best results.

By bringing in a variable workforce over a firm's busy season, fewer permanent staff are needed during the off-season period, which increases each staff member's annual utilization rate.







In the graph below, we compare the average number of hours billed per staff member per year with the optimal* (or target) number of billable hours for each staff member to work per year.



For an individual's billable hours to reach an optimal number, you want to increase their utilization during off-season – but what if you don't have more work?

To bill more, with the same volume of work, you'd need to lower the number of permanent staff members you employ. The Cost of Audit Calculator can do this for you, indicating exactly what your exact numbers should be.

Now, let's say the Cost of Audit Calculator shows you what percentage of your workforce should ideally be variable, to optimize utilization... but you're simply not comfortable with those numbers. You'd like to start off with fewer variable workers. Use the Calculator to settle on a percentage that works for you.

Remember, too, that Makosi's Cost of Audit Calculator can show you how much of your turnover is generated during which period of the year (and help you with the top-up required to optimize workforce compression in your firm).

THE HIGH-PERFORMING AUDIT FIRM

Cost should never be sole metric by which audit firms gauge performance. True value requires that spend, risk, and talent management be optimized. All three are equally important when it comes to revealing the benefits of a flexible workforce.

In the table below, we represent the dollar value of:



The Makosi guarantee applied to all of our consultants' work, which mitigates the financial risk inherent in bad hires.



The engagement managers allocated to each Makosi consultant.



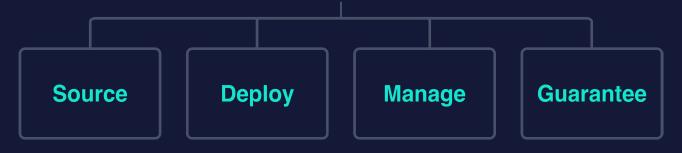
The training that Makosi consultants receive.



Access to on-demand audit seniors who are already onboarded, tech-enabled and efficiencied (Makosi onboarding is quick, seamless, and entirely removed from the audit firm's burden).

Power Pack

ADDITIONAL MAKOSI SPECIFIC SAVINGS



For over 15 years, Makosi has met the just-in-time staffing needs of audit firms worldwide. Makosi's variable workforce model helps clients to remove the burdensome growth ceiling so common in the current marketplace, by entirely reinventing workforce strategy. Known for quality consultants, meticulously curated teams, suberb culture fit, next level service, and doing everything it takes to prepare it's audit talent for success, Makosi means THERE'S ROOM TO GROW.











Source:

Makosi offers a unique data-driven approach to matching the appropriate Makosi consultant to each specific project. Understanding the level of experience and technical skills needed by each client and using this to provide the suitable Makosi rockstars for efficient and effective on-demand talent.

Deploy:

The access to on-demand consultants who are already onboarded, tech-enabled and sufficiently trained alleviates the stress of deployment from the client completely. Makosi onboarding is quick, seamless, and entirely removed from the client's burden. Makosi has a trusted outsourced IT tech company assisting with any software and hardware issues adding to the seamless transition of a variable workforce for the client.

Manage:

The Makosi Engagement Manager is a no-cost quality control resource for the client.

On Makosi's payroll, these individuals work behind the scenes to oversee deployment and integration; manage legal, HR and IT matters; ensure culture fit; safeguard the audit firm's priorities; and handle paperwork.

With skills aligned to the audit firm's particular practice, the Engagement Manager offers an extra layer of management, enabling our clients to easily scale capacity.

Guarantee:

The Makosi guarantee applied to all of our consultants' work mitigates the financial risk inherent in bad hires for clients. This offers clients 100% guarantee of consultants that suit their expectations and specified needs.

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What now?

It may seem, at least at first, that experimenting with on-demand talent is contrary to the conservative nature of traditional audit firms. Allow Makosi to talk you through it.

Contact:

Tim Bruno (CRO) on Tim.Bruno@makosi.com for support and consultation.

About Makosi:

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the future of audit

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