10 Steps to Financial Audit Success

Whether your financial audit is a seamless process or a tiring uphill slog is largely up to you.

By Rahul Sheth
December 12, 2016
CFO Magazine

There are a variety of reasons why private companies need to subject themselves to the often bemoaned financial audit. Whether it's to provide reporting for investors, lenders, or creditors or to make better decisions on regulatory actions or succession planning, conducting a financial audit is an effective way to get a better understanding of your firm.

However, the process can be helped or hindered by a company's preparation leading up to the actual audit, and the outcome depends on a combination of adequate preparation and knowing what you need to know going into it.

When it comes to financial audits, making it a seamless process — or a tiring uphill slog — is largely up to you.
What Can Go Wrong?

There are some common mistakes when it comes to financial audits. The first, and perhaps most damaging one, is engaging the "wrong" auditor, or one who doesn't have a nuanced understanding of the business.

With that comes the risk of auditors asking for unnecessary or incorrect information, increasing the number of adjustments and control deficiencies, which results in a qualified audit report — not exactly a gold star for potential investors or lenders.

A second risk is tied to inadequate audit preparation on the part of the firm. Without the proper preparation, even the right auditor will struggle to get the information it needs, leading to delays, increased costs, and a higher risk of business disruption.

10 Steps to Success

Whether you are preparing for your first or fiftieth, there are 10 steps that can help you ensure a successful, headache-free financial review.

1. Engage "the right" audit firm. The first and most important step is to find and engage the right audit firm. There is no one-size-fits-all. The right audit firm not only understands the business and industry, but also has years of experience auditing similar companies. Have you met the team? What is their approach to the audit? What is the company's objective in obtaining the audit? The audit process is a collaborative effort. Choosing a firm that aligns closely with the business is key. And, of course, cost factors into this — make sure the price is right in light of the questions above.

2. Ensure an upfront understanding of the business. If the audit team achieves a deep understanding of the subtleties of the business at the onset of the audit process, it will be able design a better risk assessment and audit framework. This can ultimately reduce audit hours and fees.

3. Understand the audit plan. Ensure auditors are focusing on the high-risk areas and businesses with more complex structures, including various revenue streams, locations, and segments. Meet with the auditors during the planning phase to discuss their understanding of high-risk areas. Auditors typically develop a prepared-by-client (PBC) list to request information. Scrutinize the PBC list to identify items that are not applicable, and don't be afraid to challenge the auditor's assessment.

4. Designate a point person. This is typically the controller or other finance executive who has a deep understanding of both finance and business operations. They can and should leverage members of their team as necessary to gather information and execute specific PBC list items, but the majority of communication and information should flow through this individual. Doing so ultimately streamlines workflow and eliminates version control challenges.

5. Have information readily available. Delayed transfer of information leads to a longer audit process and can increase cost. Call up necessary documents from the archive center. Obtain documents from third parties (like banks or vendors). Provide as much information as you can to the audit team prior to kickoff.

6. Non-standard or unusual transactions. If the company enters into any non-standard transactions (e.g. purchase or sale of business, change in segment reporting, significant impairment), it's crucial to involve auditors at the time of the transaction. To avoid year-end surprises, it is best practice to have these transactions audited when they occur.

7. Audit before audit. Review information before submitting to auditors, and ask yourself if it looks correct. Perform your own risk assessment, and test samples of high-risk accounts on your own. Set up a robust finance process that identifies errors and issues in real time. Errors discovered during the audit will result in additional testing, delaying the overall audit process and increasing the cost. Additionally, finding significant errors can result in additional reporting requirements to the board. If the business is planning an exit event or has potential investors analyzing it, they will want to know that the right systems, processes, and internal controls are in place and that the audit report is clean and unqualified.

8. Be proactive and treat auditors as trusted partners. Treat your auditors as your trusted business partners. You are helping yourself when you are proactive and forthcoming. This includes raising and discussing potential issues as early as possible. Make yourself and your team available to answer questions throughout the audit.

9. Keep track of audit. Establish a weekly update call to discuss the status of the audit, open items, and potential issues. Frequent status meetings with the auditors will steer the audit process in the right direction. These meetings will help management and the auditors understand if additional resources or time is needed to complete the audit.

10. Reoccurrence of audit. Lastly, reoccurring annual audits help determine if controls are effective and the information produced for decision-making is relevant and reliable. An important benefit of a reoccurring audit is that instances of error and fraud are significantly reduced, operational efficiency is increased, and bottom-line results are improved through a combination of cost savings and a reduction in overpayments. As an added bonus, the more you conduct audits, the more seamless it gets year after year.

At the end of the day, an audit is necessary, even if painful. With preparation and a dose of patience, however, it can turn into a streamlined, if not enjoyable, process.

Rahul Sheth is a director on the financial accounting & advisory services (FAAS) team at Accordion Partners.