



Who is the Best Resource for Audit Preparation?

Arthur F. Rothberg, Managing Director, CFO Edge, LLC

Undergoing an audit involves a tremendous investment of resources — in both money and time — by Los Angeles and Southern California businesses. In return, business leaders should rightly expect to receive an accurate financial presentation that's in full compliance and completions of the audit in a timely manner, not to mention audit fees that are fair and in line with their expectations.

Unfortunately, businesses often don't undertake the kind of comprehensive audit preparation that's necessary to ensure these positive outcomes. A survey conducted by CFO Magazine bears this out: Nearly half (47 percent) of the respondents said they only sometimes prepared for an audit, or they did not typically prepare all of their audit work papers beforehand.

Not coincidentally, nearly the same percentage (49 percent) said they thought their auditors were too expensive. This isn't surprising when you consider the fact that a lack of audit preparation usually leads to higher fees as auditors end up having to spend extra time asking for and analyzing materials that should have been included in the original prepared-by-client (PBC) documents.

Thorough audit preparation is essential to ensuring a positive audit outcome and keeping audit costs in line. This preparation should anticipate auditor requests in order to make sure any and all information or documents the auditor may need are included in the PBC and cross-referenced to the list provided by the auditor, or ready to be handed over to the auditor in a timely fashion. This includes additional documents auditors may request from independent third parties (e.g., banks and taxing authorities) during their fieldwork in order to verify the accuracy and credibility of the PBC documents.

A Daunting Task

Granted, audit preparation — including the pre-audit assembly of thorough and accurate documentation of financial controls, positions and transactions — can be a daunting task. However, presenting these materials in a transparent and organized manner that's easy for the auditor to follow and track makes it much easier for auditor questions to be answered and issues to be resolved — and for the audit to proceed smoothly, on schedule and on budget.

Poor or inadequate audit preparation can lead to the audit firm having to spend (very expensive) hours digging into the root causes of incomplete, unknown and/or inaccurate numbers and information and correcting it. Often, audit firms have to deploy high-rate resources — including partners at rates as high as \$500 an hour — to get to the bottom of issues like these. Conversely, audit firms may assign junior associates the task of digging into problems and incomplete information, but they may not have the kind of experience required for this critical task.

Your existing staff, however, may not have the time or resources required to perform the kind of thorough audit preparation work required to ensure a positive audit outcome. In this scenario, it often makes sense to hire an outsourced CFO services provider to help with audit preparation.

An outsourced CFO services firm occupies the middle ground between an expensive (and often over-qualified) audit firm partner and an inexpensive, but often under-qualified, junior associate. Outsourced CFO services professionals have years of hands-on experience in pre-audit preparation, including at large public and privately held companies. They have the strategic experience required to look at errors and corrections with a “big-picture” view, including the ability to understand how the incorrect moving parts may impact (or be impacted by) other areas and recognize and correct related issues.

An outsourced CFO professional can perform various forms of reconciling, including going back and matching deposits to receipts and matching checks issued to checks cleared to make sure the accounting statements presented for audit work are accurate and complete. The professional can also address and resolve arcane areas.

An outsourced CFO services provider fits into a billing rate or compensation schedule that’s “just right”: less than an audit firm partner, but more than a junior associate. However, this professional has just as much expertise and experience as an audit firm partner, which he or she can leverage in order to accomplish tasks much faster than a junior associate — often in hours or days, instead of days or weeks. Outsourced CFO professionals have earned their marks in the “reconciliation trenches.”

Concluding Thoughts

Los Angeles and Southern California businesses invest a tremendous amount of time and money in the audit process. Ensuring a positive audit outcome that stays within budget requires thorough audit preparation. Inadequate preparation can lead to the audit firm having to spend hours digging into the root causes of incomplete, unknown and/or inaccurate numbers, which can be very expensive if senior partners perform this task. An outsourced CFO services provider is a much more cost-effective and efficient solution for audit preparation. Such a firm occupies the middle ground between an expensive audit firm partner and an inexpensive, but often under-qualified, junior associate.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives at small and mid-sized companies in Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we’re passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 626.683.8840.

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