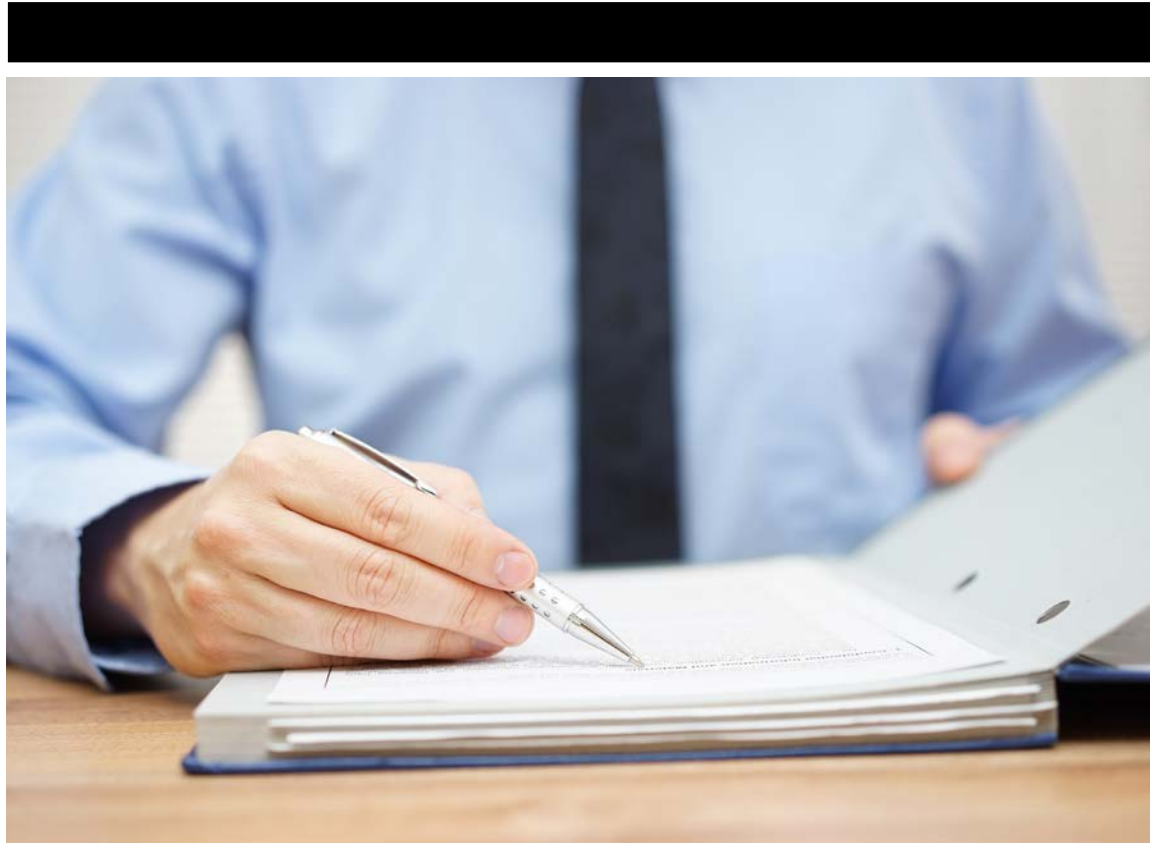




First-Time Audit

A Guide for Growing Companies



AN ARMANINO GUIDE

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Why a Financial Statement Audit Is Important

The purpose of a financial audit is to provide independent assurance that your company's financial statements present a "true and fair" picture of your financial performance and position. Publicly held companies are required by the SEC to provide audited financial statements that are free from material error. Similarly, banks and potential buyers may also require audited financial statements as proof that your business is financially sound, and companies have seen improved relationships with business partners because of the increased confidence provided.

Internally, an audit can help put meaning behind your company's financial numbers. Financial statement footnotes can help to explain financial data and make that information usable and relevant to non-financial members of your organization. The reporting process can also identify opportunities for improving internal processes for greater efficiency and accuracy.

Questions to Ask When Selecting An Auditor

When looking for an audit firm, you should be looking for a partner with whom you can have a long, successful relationship. The first step in selecting a potential audit partner is asking the right questions. Be sure you are satisfied with the answers to the below before engaging an audit firm's services:

1. **Does the firm have experience in your industry?** Find an audit partner who understands the unique challenges that exist in your business sector and industry. Several industries have very complex, technical accounting matters, so it is important to find an industry specialist.
2. **Does the firm work with businesses similar to yours?** The more experience your audit partner has in your specific field, the more easily they'll be able to conduct your audit quickly and cost-effectively.
3. **Does the firm offer other specialized services?** Look for a firm you can continue to work with as your organization grows and your business needs change.
4. **Does the staff stay current with new financial reporting requirements specific to your business?** Changes in regulations can affect how you do business. The right partner will stay knowledgeable and proactively keep you informed as well.
5. **Does the firm understand the issues you face and make recommendations to improve your operations and processes?** You want to work with an audit partner that actively helps you improve your business, not one who just performs the audit and moves on.
6. **Is the firm vetting your business?** A high-quality audit partner is one that is selective about their clientele and chooses to work with clients in industries where they can put their experience to good use.
7. **Does the firm perform audits that are efficient?** Look for an audit partner with the experience to perform an audit with minimal disruptions to your operations.

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8. **Do you have access to the partner throughout the year?** Identify a partner who will be in constant contact with you throughout the year, instead of just during the audit time. This helps to ensure significant, unusual transactions are accounted for on a timely basis.

Preparing for Your First Audit

Now that your audit is on the horizon, you'll want to do some up-front preparation and planning to make sure that the process goes smoothly.

Get Your People Ready

Schedule a planning meeting with the audit partner and manager well in advance of the engagement fieldwork. Work collectively to identify and vet out potential issues and roadblocks that could cause delays and develop a game plan. Engagements that are not properly planned with partner/manager involvement often go sideways and have an increased chance of running inefficiently.

Get Your People Ready

Having auditors in your office asking questions and requesting documentation can be a stressful experience. Help your employees prepare by assigning roles and a point person for each of the audit areas. If your employees (and the auditors) know who to turn to when they have a question, it will make the process more effective.

Document Your Internal Controls and Processes

If you don't already have your internal processes and controls documented, now's the time to do so. Auditors are required to document their understanding of your control environment, and you and your employees are experts on that subject.

Consider compiling the following process and control documents:

- Cash in-flows and out-flows
- Financial reporting
- Monthly and year-end close controls
- Information technology controls
- Payroll
- Fixed assets
- Inventory

Mind the Gaps

Your auditors will be requesting a lot of information during the process, and you want to be able to provide that information easily by having a complete set of records before the audit begins. You'll want to make sure your reconciliations and financial statements are up to date, and your transactional records are organized so you can quickly provide them to the auditors for their sample selections. Additionally, you'll want to gather organizational documents, contracts and lease agreements, and make sure you've documented any items or transactions that are unusual, especially if they are large ones.

A first-time audit is a lot of work—there's no avoiding that fact. But by choosing the right audit partner, asking the right questions and being proactively prepared, you can make sure the process is efficient and effective.

STRATEGIC INSIGHTS, PRACTICAL ACTION

Armanino provides an integrated set of accounting services—audit, tax, consulting, business management and IT solutions—to a wide range of organizations operating both in the U.S. and globally. You can count on Armanino to think strategically and provide the sound insights that lead to positive action. We address not just your compliance issues, but your underlying business challenges, as well—assessing opportunities, weighing risks, and exploring the practical implications of both your short- and long-term decisions.

When you work with us, we give you options that are fully aligned with your business strategy. If you need to do more with less, we will implement the technology to automate your business processes. If the issue is financial, we can show you proven benchmarks and best practices that can add value companywide. If the challenge is operational, we'll consult with your people about workflow efficiencies. If it is compliance, we'll ensure that you meet the requirements and proactively plan to take full advantage of the changes at hand. At every stage in your company's lifecycle, we'll help you find the right balance of people, processes and technology.

For additional information on when and why you should consider a first-time audit, contact:



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