



# A BETTER AUDIT EXPERIENCE: SETTING UP FOR A SMOOTHER PROCESS

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**THE 3 MOST COMMON CULPRITS TO TIME-CONSUMING AUDIT**  
— AND HOW TO OVERCOME THEM.

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# INTRODUCTION

Audits can quickly go awry. And when they do it's not just the audit opinion that's at stake—a prolonged audit process can sap the energy and morale of the finance team, increase the costs involved, and, worse of all, put your company's financing and compliance requirements at risk if critical deadlines aren't met.

**We've seen what can happen. From our experience helping companies manage the audit process, the most common culprits of troublesome audits are:**

- 1. Lack of audit expertise:** If no one on the finance team has managed an audit before, then it's difficult to fully understand what the auditors need, when they need it, and how much work will be involved to provide it.
- 2. Limited internal bandwidth to support an audit:** We see this a lot in fast-growing companies where the team is stretched thin trying to keep up with the business. Frantically trying to scale up as they outgrow old systems, they may also be dealing with a system implementation. Throw an audit into the mix and you have a recipe for disaster.
- 3. Accounting records are not "audit ready":** The messier and more incomplete record-keeping is, the more daunting and stressful the entire audit process will likely be. Some of the typical issues that need addressing before the auditors arrive:
  - Books aren't anywhere near ready to be audited
  - Journal entries are missing backup and haven't been reviewed by management
  - Account reconciliations not complete
  - Significant, complex or unusual transactions aren't supported by technical accounting memos and may not have been properly recorded
  - Incorrectly recorded revenue recognition and equity transactions (these are big ones!)
  - Accounting policies are not documented and implemented, resulting in inconsistent accounting for similar transactions

# HOW TO AVOID AUDIT PITFALLS

An unprepared company can expect lots of back-and-forth with the auditors, inefficiencies, increased costs, and turnover of the audit team (they may need to move on to other clients as you track down answers and justifications, meaning you'd have to deal with getting another team up to speed on your business and responding to new requests). That's frustrating for all parties involved. And a lot of it is avoidable!



By cleaning up the books, understanding what needs attention, and touching base with your auditors throughout the process, the entire audit time could be shorter and less disruptive. Bringing in an audit support expert well-versed in getting this process right can take a load off the internal team and keep everything rolling smoothly.

Some unexpected issues are bound to pop up—but by keeping on top of things from the beginning—or having someone else manage it for you—you can get through it.

**Here's how:**

# 1. UNDERGO A PRE-AUDIT.

Before the stakes are high and the auditors arrive, a dispassionate look at the shape of your books can lead to some overdue cleanup. Pre-audit review specialists will find the missing gaps after asking some key questions such as, Are all your accounts reconciled? Do reconciling adjustments need to be made? Do you have the supporting documents to back up your account balances? They'll take a harder look at some of the higher risk areas and ascertain what needs to be addressed.

# 2. MEET WITH THE AUDITORS FOR A PLANNING SESSION.

Before the audit kicks off, educate your auditors about your business and go over any expectations. Let them know about any of your concerns (better to get these matters out on the table, rather than trying to work through surprises later on), agree on a timeline, and understand the scope of the audit. For example, if you have more than one location, find out now which locations are in scope and don't assume the answer will be the "same as last year."

# 3. OBTAIN THE PBC LIST.

Provided by the auditor, the PBC (or prepared by client) list of schedules and other documents tells you what they want to see. Before the list gets finalized, make sure you understand each request—why it's needed, what format it needs to be in, and how you should respond. For any information you already prepare on your own, see if the format you use will be adequate or if you'll have to supply the information another way. If there are requests that don't make sense to you, based on your business operations, raise these issues now. This is the time to clear up any misunderstandings. These are negotiations your audit support expert can make for you.

## **4. SET EXPECTATIONS WITH YOUR INTERNAL TEAM.**

Each item on the PBC list should have a specific person and due date assigned to it. A point person, or an audit support expert, can coordinate this effort and ensure the PBCs are completed correctly and on schedule (or re-assign a task if a deadline looks to be in jeopardy). Ideally, this person has a tight understanding of what your team needs, what the auditors need, and how to speak the languages of both groups. This single point of contact gives the auditors assurance that the audit documents will be delivered on time and a place to turn for status updates.

## **5. SCHEDULE REGULAR STATUS MEETINGS WITH THE AUDITORS.**

By reviewing the status of the PBC list together, you can avoid many unnecessary roadblocks to the audit. You'd be surprised how often auditors are waiting for something that the company thinks they have already provided or the wrong audit team member has it and is holding up the process.

You can also use these meetings to understand and assess any new requests—after all, the PBC list is just the start of the auditors' asks—they will seek additional information once the audit is underway. Is the request valid? Is it simple to fulfill, or would it be time-consuming to prepare and you may have a better way of meeting their needs or addressing their concerns? This is where your audit support experts can help expedite and resolve issues the auditors have identified.

# STARTING THE AUDIT OFF RIGHT

There's nothing routine about an audit. It pulls key people off their everyday responsibilities and puts previous decisions under the microscope. Unfortunately, some companies don't uncover the trouble spots in their financial processes and systems until the audit, and that can cause the audit process to drag on for months, resulting in distraction from the business, tough conversations and a plethora of audit adjustments. It can also erode management's confidence in the capabilities of the finance team.

Prepping and managing the audit from day one provides an opportunity for streamlining processes along the way, and improve how information is gathered, recorded, and reported. When the company *is* ready for auditor scrutiny—and not sweating over a tangled mess—then it is also ready to calmly and efficiently find any answers and resolve any issues. This not only sets you up for a smoother audit, it provides ongoing operational benefits to your organization.


In turn, the auditors can use their time judiciously—on what matters most to the audit. Auditors can spend less time worrying about whether you've updated a certain journal entry or PBC item and keep their focus on the actual audit. They will be pleased by your clean and complete work papers. They will have an understanding of your business and you will understand their needs upfront. In the end, you could come away from the audit with better insights about areas that need improvement, and clarity about your accounting and what auditing experts are seeing in the field and the areas of focus from regulators. The audit process may never be easy, but it can be set up to be more efficient and even productive.




# THE BENEFITS OF A SEAMLESS AUDIT

Many fast-moving companies let their books fall into disarray while their priorities were on other matters—such as advancing the business, developing their products and landing sales.

With some expert help, you can still keep your focus on those areas and minimize the amount of attention you need to spend on the audit.



## **A proactive, managed approach to the audit results in:**

- An on-time, on-budget audit
  - Clean books
  - No stress of missing a deadline that could jeopardize financing or your valuation
  - More reliable financial data for decision-making – for investors and management
  - Process improvements and efficiencies
  - Better insights from your audit support expert and your external auditors
  - Avoid a prolonged time drag on your team—once the audit is over, your team can focus on your business.
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