

Audits for Startups – Be Sure This is Best for You

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“I need an audit,” I often hear from someone with a startup. I respond by telling them, “You need to consider these two questions first”:

1. Do you really want an audit?

Audits are the highest level of assurance CPAs can provide and are therefore the most complex, time consuming and costly option available. Many times, an audit is not the right answer for a startup.

CPAs can perform three basic attest services for startups. A **compilation** presents management’s financial information in a standard format but the CPA does not test the balances. A **review** builds on a compilation by analyzing the numbers to see if they make sense in relation to one another and looking for outlying figures.

An **audit** confirms all material financial figures, including bank balances, receivables, and debt and vouching significant transaction such as fixed asset purchases to invoices. Audits also include tests of internal controls surrounding the financial reporting function.

Each option grows exponentially in time and cost to the next, with compilations the simplest one. Unless the users of your financial statements need the highest level, a compilation or review might better suit your needs.

Often, however, a lender or investor will require an audit in order to do business with them. It is wise to discuss the needs of both the user and the company so that the end result is one everyone can accept.

2. How well are your controls documented?

Keeping solid financial records is key for any successful business. Startups often have the procedures in place, but do not always have these processes and controls documented. Oftentimes, only the controls that affect a company’s cash balances are in place.

A company should document policies and procedures for all financial transactions. As part of the audit, we review these controls and who performs them to ensure proper controls are in place and operating effectively and as intended.

Having your processes and controls documented prior to engaging a CPA to audit you will make the process much more efficient.

What to Expect From An Audit

There is no standard time frame or cost for performing an audit, as this will vary based on the size and complexity of the transactions within each organization. You can take some actions to expedite the process, however, such as:

- Start documenting your internal controls as soon as practical while continuing to grow your business.
- Talk to other companies who have been audited about their experiences and what they learned from it.
- Have a dialogue with your auditor about what he or she is going to need from you up front.

The bottom line is that it is never too early to begin the best practices for financial reporting within a company, whether you initially plan to have an audit, review or compilation performed.

As an audit partner in Cherry, Bekaert & Holland, L.L.P.'s Mid-Carolina practice in Raleigh, Scott Duda provides accounting, auditing and consulting solutions to a diverse client base. He focuses his practice on serving high growth companies in the technology, manufacturing, service and government contracting sectors throughout the region. For more information, visit www.cbh.com.