To Audit or Not to Audit...

by David J. Mayotte, CPA/ABV, CVA, CFE

"To be, or not to be: that is the question." Nearly everyone can recite this well-known line from William Shakespeare's *Hamlet*. But what if the Bard were a great entrepreneur instead of a great author? Would he have asked, "To have a financial audit or not to have a financial audit…that is the question." What advice could we offer the Bard, the entrepreneur? Perhaps, "Get thee to a CPA firm!"

Shakespeare would certainly have asked for definitions of terms. Audits of a company's financial results can only be performed by a certified public accounting firm (CPA firm). CPA firms come in all sizes. They may be regional, national or even international in location and scope of work.

Financial statement audits aren't legally required for most companies, but may be required by such "intended users" as major investors and financial institutions that either invest funds in your company as an equity investment or lend funds to it in as debt. It is important to understand who these intended users of your financial results are and what they need to know before investing.

Financial statement audits can be expensive. In addition to the professional fees involved, these audits take staff time away from other essential business functions to respond to numerous requests for documentation, such as invoices, copies of contracts, bank statements and third party confirmation of transactions. For many start-up companies, financial statement audits may not be cost-effective. If you want a CPA firm involved with your company—something many successful business leaders recommend—there are lower-cost alternatives available that might be just as beneficial to the entity's owners and intended users.

For many start-up companies, financial statement audits may not be cost-effective.

CPA firms can provide three levels of service that are less costly than audits:

- a review of the financial statements
- a compilation of the financial statements (which can be performed with or without financial statement footnotes), or
- management-only financial statements.

The most expensive of these three services is a review of the company's financial statements, and the least expensive is providing the management-only financial statements. The most common level of service that we see in today's marketplace is the compilation.

The most common level of service that we see in today's marketplace is the compilation.

Rather than obtaining a financial statement audit, your company might be better off utilizing CPA firms to outsource other services, such as reviewing and fine-tuning your business plans, as well as assisting with company budgets and projections. Ensuring your business plan, budgets and projections are in order might help you obtain equity or debt funding in the future.

David Mayotte *is is a vice president with Greenberg, Rosenblatt, Kull & Bitsoli, P.C. in Worcester. He can be reached at dmayotte@grkb.com or 508-791-0901.*

Financial institutions such as banks may place more weight or importance on your company's projections, business plan and management team rather than its current financial results. Many start-ups tend not to have much in the way of financial assets or net worth, so when the bank lends money, it may be lending money on the basis of a bright future more than the current financial situation.

From our experience in the marketplace, we've found that local banks are more likely to listen to the company's plans and can become a very good sounding board for company management. Local banks might also help fund future expansion activities of a company it has an existing business relationship with.

Involving a CPA firm early in your business' life-cycle makes sense, but not always for an audit. Just remember to heed another piece of advice for entrepreneurs from *Hamlet*: "This above all: to thine own self be true."