



Not “Just” Audits:
How a Successful Audit
Can Save You Money



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Not “Just” Audits: How a Successful Audit Can Save You Money

You're killing it. You've hustled your way to the top, and everything seems to be going great. But wait – what about audits? You might think, "I have everything under control. Why should I worry about audits?"

It's a common misconception that audits are a waste of time or only necessary when things start going wrong. But the truth is, a well-executed audit could save you money, prevent disasters, and even help you grow your business in ways you never thought possible.





Audit Is Not the Enemy.

Do you know who your enemy is?

The belief, by many, has been that *"we've always done it this way"* or *"we've never had any issues before, so we don't need an audit."* But the truth is that businesses evolve, markets change, and risks emerge. Without regular audits, you risk being blindsided by hidden issues that can harm your business.

Also, there is the fear that audits are only there to find faults or mistakes. Sure, audits identify areas that need improvement, but they also uncover opportunities for growth, cost savings, and enhanced efficiency. Audits provide valuable insights to help you make informed decisions, avoid pitfalls, and stay ahead of competitors.

Here are a few ways regular audits can uncover cost-saving opportunities and help companies save money:

1 Identification of inefficiencies

A comprehensive audit can shed light on processes or operations within a company that are inefficient or redundant. By identifying these inefficiencies, companies can make necessary adjustments to streamline operations, reduce waste, and save money. For example, an audit may reveal that a particular department uses outdated equipment, leading to increased maintenance costs. By investing in updated equipment, the company can reduce maintenance expenses and improve productivity.

2 Fraud detection and prevention

Audits are crucial in detecting and preventing fraudulent activities within a company. Exposing fraud helps companies save money by minimizing financial losses. For instance, an audit may find fraudulent transactions by employees or vendors, allowing the company to take appropriate action and recover the funds.

3 Compliance with legal and regulatory requirements

Non-compliance with legal and regulatory requirements can result in costly penalties and fines. A successful audit ensures that a company adheres to all applicable rules and regulations, reducing the risk of financial penalties and legal consequences. By avoiding penalties, companies can save significant amounts of money.

4 Financial statement accuracy

Audits verify the accuracy and completeness of financial statements, ensuring that they provide an accurate and fair view of a company's financial position. This accuracy is crucial for making informed business decisions. When financial statements are reliable, companies can avoid costly errors or misinformation that could lead to incorrect conclusions and financial losses.

5 Risk management

A thorough audit evaluates a company's risk management systems and controls to identify weaknesses or vulnerabilities. By strengthening these systems, companies can reduce the risk of financial loss due to theft, errors, or other fraudulent activities.

6 Vendor contract analysis

Audits can review vendor contracts and agreements to identify cost-saving opportunities. For example, a company might discover that they are overpaying for certain services or that better terms can be negotiated with suppliers. By leveraging the information the audit provides, companies can renegotiate contracts, resulting in significant cost savings.

Understanding the Audit Process

The audit process can seem complex and intimidating for business owners who may not be familiar with its intricacies. However, understanding its stages and what to expect can help business owners confidently navigate the process.

01 | Planning

Before the audit begins, there is a planning phase where the auditor and the business owner discuss the scope of the audit, objectives, timelines, and any specific areas of focus. This stage involves gathering background information about the business, understanding its operations, and identifying key risks and controls.

During this stage, you'll provide the auditor access to relevant documents, such as financial statements, tax records, bank statements, contracts, and internal control documentation.

The auditor will review these materials to understand the business and its financial position comprehensively.

02 | Risk assessment

The auditor will assess the business and its industry risks. This involves evaluating internal controls, identifying potential fraud risks, and understanding the regulatory and compliance environment. The auditor may also perform analytical procedures to identify unusual trends or transactions requiring further investigation.

During the risk assessment stage, you may be asked to provide additional information on specific risk areas or any recent business changes that could impact the audit.

Understanding the Audit Process

03 | Testing and verification

After risk assessment, the auditor will perform substantive testing to verify the accuracy and completeness of financial information. This includes testing transactions, reviewing supporting documents and reconciling accounts. The auditor may also conduct physical inspections or site visits, depending on the nature of the business.

You should be prepared to provide the necessary documentation and support for the auditor's testing procedures. This may involve locating and providing invoices, receipts, contracts, and other records as requested.

04 | Reporting

After completing the testing and verification phase, the auditor will compile the findings and prepare a report. The report will typically include the auditor's opinion on the financial statements, highlighting any significant issues or areas of concern. If material misstatements or non-compliance with accounting standards exist, the auditor will provide recommendations for corrective actions.

The report will serve as an essential tool for understanding the findings and making informed decisions for their business. The auditor may also provide suggestions for improving internal controls or operational efficiencies based on their observations during the audit.

05 | Follow-up and resolution

In some cases, the auditor may identify areas for improvement or recommend changes to business practices. You should review the auditor's findings and recommendations at this stage carefully. It is essential to address any identified deficiencies and implement the auditor's recommendations to strengthen internal controls and improve overall operations.

Essential Pre-Audit Preparation Checklist for Business Owners

Your active participation in the audit is indispensable. Business owners can leverage the audit to gain valuable insights and improve their business operations by providing necessary information and collaborating with the auditor. As such, having a comprehensive pre-audit preparation checklist can help ensure that all necessary tasks and documents are in order. **Here are the essential items to include in your pre-audit preparation checklist:**

✓ **GATHER FINANCIAL STATEMENTS:**

- Collect your financial statements for the period to be audited, including the balance sheet, income statement, and cash flow statement. Ensure that these statements are accurate, up-to-date, and reconciled.

✓ **ORGANIZE SUPPORTING DOCUMENTATION:**

- Compile all supporting documentation for the financial statements, such as invoices, receipts, bank statements, payroll records, tax filings, and employee expense reports. Organize these documents in a systematic and easily accessible manner.

✓ **REVIEW INTERNAL CONTROLS:**

- Assess your internal control processes, including policies, procedures, and authorization protocols. Identify any weaknesses or gaps that could impact the audit. Strengthen controls or implement corrective actions as needed.

✓ **COMPLETE ACCOUNT RECONCILIATIONS:**

- Reconcile all critical accounts, such as cash, accounts receivable, accounts payable, and inventory. Address any discrepancies and ensure that all balances are accurately reflected in the financial statements.

✓ **VERIFY COMPLIANCE WITH REGULATIONS:**

- Ensure your business complies with applicable laws, regulations, and industry standards. This includes validating the accuracy of tax filings, adherence to financial reporting standards, and any specific industry regulations.

✓ **REVIEW DOCUMENTATION OF SIGNIFICANT CONTRACTS:**

- Identify and review any significant contracts or agreements that may impact the financial statements. This includes lease agreements, loan contracts, revenue recognition agreements, and other contractual obligations.

Essential Pre-Audit Preparation Checklist for Business Owners

✓ **PREPARE FIXED ASSET RECORDS:**

- Compile a detailed listing of all fixed assets owned by your business, including depreciation schedules, purchase invoices, and disposal records. Ensure that these records are accurate and complete.

✓ **REVIEW EMPLOYEE BENEFITS AND PAYROLL RECORDS:**

- Verify the accuracy of all employee benefit plans, including retirement plans, health insurance, and payroll records. Ensure that all information is up-to-date and in compliance with applicable regulations.

✓ **CONFIRM INVENTORY ACCURACY:**

- Perform a physical inventory count and reconcile it with the recorded inventory balances. Address any discrepancies and document the adjustment process.

✓ **COMMUNICATE WITH KEY PERSONNEL:**

- Inform key employees about the impending audit and their role in supporting the process. Coordinate with finance, operations, and other departments to ensure their availability during the audit period.

✓ **PREPARE AUDIT DOCUMENTATION BINDER:**

- Create a well-organized binder to house all relevant documents and schedules. Label and index the contents for easy reference during the audit.

✓ **PROVIDE SUPPORTING SCHEDULES:**

- Prepare detailed schedules that support the amounts and balances reported in the financial statements. These schedules can include accounts receivable aging reports, accounts payable listings, and inventory valuation summaries.

Essential Pre-Audit Preparation Checklist for Business Owners



ADDRESS ANY PREVIOUSLY IDENTIFIED ISSUES:

- If there were any previously identified issues from prior audits or internal reviews, take proactive steps to address and resolve them before the upcoming audit. Document the actions taken to avoid repetition of past issues.



ESTABLISH OPEN COMMUNICATION WITH THE AUDITORS:

- Reach out to the audit team to establish open lines of communication. Discuss the audit objectives, timelines, and any specific areas of focus. Understand the auditor's expectations and clarify any questions or concerns.

By following this checklist, you can ensure that you're well-prepared for the audit process. Adequate preparation facilitates a smoother audit and instills confidence and trust with the auditors. Ultimately, effective pre-audit preparation contributes to a more efficient and accurate audit outcome.

What's next?



Leverage the audit findings as a learning opportunity and continuously strive to improve financial reporting, internal controls, and overall business processes.

Effective follow-up procedures should be implemented to ensure all recommendations and action items identified during the audit are implemented and maintained. You should take ownership of the implementation process and ensure that all recommended improvements are incorporated into the organization's operations. Clear and precise action plans should be developed and tracked to monitor the implementation progress and detect any shortcomings.

Additionally, it's imperative to communicate the audit results to all stakeholders, including the board of directors, investors, and other interested parties. Such communication helps build trust, promote transparency, and demonstrate a commitment to financial integrity. Timely and transparent communication can also help prevent further risks by facilitating swift corrective action in case of any discrepancies.

Selecting the Right Audit Firm For Your Business

Choosing the right audit firm is a crucial decision for any business, as the audit firm plays a critical role in ensuring the accuracy and reliability of financial reporting. You can consider a firm's industry experience, size and resources, reputation, partner involvement, tools and technology, service offerings, and compatibility with your business's culture, values, and communication style.

When deciding on an audit firm for your business, **MBE CPAs** is the ideal choice because it checks all the boxes and more:





1 Industry Experience

We have a wide range of experience across various industries, including non-profit organizations, construction and contracting, local governments, and organizations subject to federal audit guidelines. This extensive industry knowledge allows MBE CPAs to understand the specific accounting principles, regulations, and challenges businesses in these sectors face. Our expertise ensures we can provide specialized audit and assurance services tailored to your industry's unique needs and requirements.

2 Firm Size and Resources

MBE CPAs strikes the right balance between being a large enough firm to offer a comprehensive range of services and having the resources to handle complex audit engagements effectively while still providing personalized attention to clients. Our team of professionals is accessible, responsive, and dedicated to delivering exceptional service.



3 Reputation

Our commitment to professionalism, integrity, and quality has earned the trust and respect of our clients. You can be confident that MBE CPAs will conduct your audit with the highest level of expertise and ethical standards.



4

Partner Involvement

MBE CPAs believes in strong partner involvement throughout the audit process. Our partners actively participate in every engagement and provide valuable insights and guidance. This hands-on approach ensures a high level of attention to detail and expertise and a deeper understanding of your business operations.

5

Technology-Driven Audit Solutions

We use advanced software for efficient and accurate data analysis, documentation, and reporting. By leveraging technology, MBE CPAs maximizes efficiency, reduces errors, and offers real-time access to audit information.



6

Comprehensive Service Offerings:

MBE CPAs provides extensive audit and assurance services to meet your specific needs. Whether you require financial statement audits, reviews, compilations, internal control assessments, or other assurance services, we have the expertise to deliver reliable results that enhance the credibility of your financial reporting. Explore the full range of our audit and assurance services [here](#).





7

Compatibility and Communication:

We take the time to understand your business, culture, and values to ensure compatibility and effective communication. MBE CPAs values open and transparent communication channels to keep you informed throughout the audit process.

8

Strategic Insights for Business Growth:

Our team goes beyond simply reporting financial information. We interpret the audit findings and provide comprehensive recommendations to drive business growth, improve internal controls, enhance efficiencies, and mitigate risks. By leveraging our expertise, we can help you make informed decisions that will positively impact your company's performance.



Choosing *MBE CPAs* as your audit firm means partnering with a team with a deep understanding of your industry, a proactive approach to addressing audit challenges, a commitment to leveraging technology for efficiency, and a focus on using audit findings to drive your business's growth.



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