



Freed Maxick & Battaglia, PC

Certified Public Accountants



What to do when it's time to change audit firms

How to avoid past problems and ease the transition process

Take it to
theMax.

A record number of companies are leaving relationships with audit firms this year, and many cite bad service or high fees as reasons for the breakup. Some industry watchers speculate that large accounting firms no longer have time for any but their most lucrative clients and are anxious to realign their client base. Thus, ignoring small and midsized companies may be a means of precipitating their departure.

Whatever their reasons for parting ways, many companies are now scrambling to find a new audit firm.

Selecting and making a transition to a new firm can be a source of anxiety for company decision makers. Concerns about meeting regulatory, interim and year-end deadlines and acceptance by the company's financial partners are high on the list. Other worries may include being charged high fees or receiving poor service.

Many of these concerns can be mitigated, however, through research, planning and taking certain proactive steps. The result of this extra effort can be a productive and cooperative working relationship with an audit firm that truly understands your company and values your business.

Avoiding past problems

Companies that sever ties with their audit firms are typically frustrated and disappointed. It goes without saying that they don't want the problems they encountered with the last firm to recur with the new one.

Some of the most common grievances these companies cite include:

- Poor service
- Lack of responsiveness
- Price too high for value received
- High turnover on the account
- Lack of new ideas
- Fees that are higher than what was agreed upon

These issues can be difficult or impossible to correct once a firm is engaged. Employing a thorough, diligent selection process helps ensure that underachieving firms don't make the cut – and that the firm you choose meets all your expectations.

Selecting the right firm

Even as interim, year-end and regulatory deadlines loom, selecting and building a solid relationship with a new firm requires patience and commitment. Taking the time to find the right audit firm will best serve companies – both public and private – in the long run and will significantly ease the transition process.

Primary vehicles for learning about audit firms include research, face-to-face interviews and proposals submitted by the firms. Using these opportunities to their fullest advantage will help ensure that the audit firm you select is the best fit for your company.

Use research to narrow the field

Some companies issue a request for proposal to identify a field of interested candidates. This often generates a large number of proposals, but only a few from firms that meet the company's qualifications.

To avoid piles of unnecessary paper and inefficient use of time, the audit committee may want to begin with conducting due diligence research on appropriate firms.

How to avoid past problems and ease the transition process

Information about firms' clientele, industry focus and geographic presence may be available on Web sites or through marketing materials. Word-of-mouth recommendations from business associates can also be helpful.

Once firms with certain basic criteria are identified, the committee may want to research the following:

- Results of peer reviews
- Results of PCAOB review
- Any media coverage related to the firm or its clients
- Reputation with the financial community

Firms that remain in the running after this step should be contacted for face-to-face meetings.

Spend quality time

In this stage of the decision-making process members of the audit selection team should meet with representatives of three or four carefully selected firms. The purpose of these interviews is to discuss issues that are critical to your company and to determine whether a congenial working relationship could be forged with the firm.

In these meetings audit team members should confirm that the firms:

- Have knowledge and experience that is applicable to your industry
- Want to work with companies your size and will value your business
- Have the resources, particularly at the partner level, to provide optimal service to your company
- Are available to begin working within your required timeframe

This is also an opportunity to make sure you have a clear understanding of the firms' fees, hours, and audit preparation requirements. If you have business interests outside of the United States, this is the time to ask about firms' international capabilities.

Audit team members should consider the level of rapport they feel with potential audit partners. Factors such as likeability, sense of humor and communication skills are important in long-term relationships.

Invite your A-list to submit proposals

By the time you are ready to invite proposals, the field of candidates should be small – and your spirits should be high. You are close to completing the most important step of the audit transition process.

Firms that truly want your business will respond to your request for proposal by the deadline. But to ensure that firms submit their best work, give them a reasonable amount of time to complete their proposals.

When you review the proposals, ensure that the responses are consistent with what you were told in the initial meeting. Pay particular attention to responses related to fee structure, level of partner attention and other key areas of concern.

Consider quality, completeness and level of detail when you rank the proposals.

Final interviews

Ask any remaining questions in the final interview. Provide the finalists with a date by which you hope to make a decision – and do your best to stick to it.

If the other stages of the selection process were thorough, audit committee members and other company stakeholders should be able to reach a consensus.

When company decision makers deliberate between two outstanding firms, fees often become the tie-breaking factor. In the interest of ensuring that the firm you hire is the best long-term fit, revisit other important qualifications as well, including industry experience, rapport and accessibility of partners.

Easing the transition

Some transition considerations will vary based on whether a company is publicly or privately owned. But regardless of ownership structure, companies encounter many similar challenges when changing audit firms – and most can benefit from taking certain measures.

How to avoid past problems and ease the transition process

Allow yourself enough time

Whether your deadline for filing audited financial statements is determined by a bank or the SEC, don't cut it too close. If you plan to switch firms, you need to begin the transition process as soon as possible. Notify your audit firm that it is dismissed. Do this without burning any bridges – you'll need its cooperation.

Work with your former audit firm

Your new audit firm will need access to audit work papers from past years, which usually requires visiting the old firm's offices. Facilitate contact between the two firms when you have the opportunity.

If your company is publicly owned, you'll need consent to use its prior audit opinions. Inform your former audit firm promptly that you'll need its consent for this. Make sure you understand the former firm's time requirements and are clear on what you must do to ensure a timely completion of this task. Provide drafts of documents in accordance with your arrangements with the former auditor.

Waiting until the current opinion is nearly complete – and asking the old firm to expedite your request – can result in excessive charges and missed deadlines.

Get your documents in a row

Even before your new audit firm gets down to business, you can take action to make the transition process as smooth as possible. Ask your audit firm for a list of documents it will need, so you can begin compiling them. You should also show your new firm the work papers you provided to your former auditor.

Some documents your auditor will likely need include:

- Articles of incorporation
- Debt agreements
- Buy-sell agreements
- Significant leases
- Significant employee agreements
- Stock certificates

- IRS exams
- IRS filings
- SEC filings and correspondence

Designate enough resources to the audit

To help the audit run smoothly, you'll need to enlist cooperation from within your company. Appoint the right people at the right levels to help ensure deadlines are met and that accurate data is provided.

People you may want to designate as audit resources include:

- Chief financial officer
- Controller
- Assistant controller
- Accounts receivable supervisor
- Accounts payable supervisor
- Internal auditor
- Director of accounting

Your company should also provide the name of a primary contact for audit-related questions and issues. The audit firm should do the same. These personnel usually have a key role in the audit, and they should be accessible and responsive.

Hold a kickoff meeting

Invite tax and audit personnel from the new firm to a kickoff meeting. Introduce them to everyone with whom they may have contact, including administrative personnel and company leadership. Provide a complete list of contact information.

Develop a joint audit plan

Work with the audit firm to develop a plan that identifies deadlines and materials needed to meet them. This is a good time to discuss weaknesses in your system, including any concerns about your reporting structure. Be honest in your assessment of your company's strengths and weaknesses.

Be prepared

Audits can encounter delays when information is not provided in a timely manner or data is inaccurate. This can also result in additional billings and higher-than-expected costs for the audit. To avoid these situations, make sure your staff is prepared to work with the audit firm and to provide needed information and meet all deadlines.

Be upfront about adjustments

The audit process should not result in adjustments. The need for adjustments signals problems within a company's internal reporting process. If you believe adjustments to your audit will be necessary due to weaknesses in your control process, discuss this with your auditor as soon as possible.

Have realistic expectations

Your new audit firm will undoubtedly need some time to find its way around your company. But if you begin the transition process by selecting a firm that knows your industry and understands companies like yours, the lag time can be minimal.

Making well-considered decisions and securing your company's cooperation will help you achieve a smooth transition – and a long relationship with an audit firm that's the right fit for your company.

How Freed Maxick & Battaglia can help

Freed Maxick & Battaglia, CPAs, PC offers assistance through a tailored audit approach that reflects the specific needs of midsized companies.

When you work with us, you can expect a thorough, cost efficient, independent audit, performed in a timely manner by experienced professionals. We hire talented people and invest in training and tools – including systems to ensure consistency, objectivity and accountability – that mandate strict compliance with professional standards.

We select your audit team members based on their experience and skill in your industry. Then your team identifies the best methodologies to achieve a reliable, independent audit that will help you improve efficiencies and plan more accurately for the future.

Our senior people are extensively involved in the audit process and actively communicate with your company's leadership. We give clients regular face-to-face attention.

At Freed Maxick, we demand compliance with the profession's ethics and independence standards, and our 45-year history of operating at the highest level of integrity and objectivity confirms our commitment to excellence. We are proud of our profession and strive to deliver on our promises to the public trust.

About Freed Maxick & Battaglia

Freed Maxick & Battaglia is the largest public accounting firm in Western New York. With offices in Buffalo, Batavia, and Rochester, we are committed to helping midsized businesses grow and prosper.

Assurance Services

- Auditing, Reviews & Compilations
- Agreed-upon Procedures
- Accounting & Bookkeeping
- Bankruptcy Accounting
- Pension Plan Audits
- SEC Reporting

Tax Services

- Tax Preparation
- Corporate & Executive Tax Planning
- State and Local Tax Consulting
- Sales Tax Audit Defense
- Cost Segregation Studies
- International Tax Planning
- Property Tax Reduction
- R&D Credits

Consulting Services

- Bank Financing Assistance
- Business Planning
- Merger and Acquisition Assistance
- Strategic Wealth Management
- Forecasting
- Profit Enhancement Strategies
- Facilitation of Strategy Sessions
- Recruiting Assistance

- Personality and Workstyle Profiles
- Business Valuations
- Business Succession Planning
- Forensic Accounting
- Fraud Investigation
- Expert Witness Testimony
- Due Diligence
- Estate Planning
- Strategic Planning
- Litigation Support
- Buy/Sell Agreements
- 404 Compliance

Employee Benefit Services

- Section 125 Flexible Spending Account Administration
- Parking & Mass Transit Plan Administration
- Pension Plan Administration

Industry Groups

- Financial Institutions
- Agriculture
- Manufacturing & Distribution
- Health care
- Governmental
- Auto Dealers
- Not-For-Profit
- Construction
- International Business
- Asset Based Lending
- Venture Capital

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