



Fall Audit Readiness

Now is the time to assess financial readiness for the upcoming year. **What questions are you asking?**

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As the fall leaves commence their colorful journey to winter, finance and accounting professionals focus on getting next year's budget ready and preparing for an audit of the current year's results. The fall is a time for the company to assess where they are internally, and the capital needs outlook for the organization.

FALL AUDIT READINESS

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Are you ready for the financial reviews demanded over the next few months? Here are some typical questions you may be exploring:

- Should we stay private or explore going public?
- What type of audit standard will we need in the coming year, AICPA or PCAOB?
- Have the financials been reconciled?
- Have contracts executed during the year been accounted for properly?
- Is the capitalization table up to date?
- Have stock-based compensation plans been completed?

- Is a new 409a needed to account for changes in valuation during the year or to provide year-end employee equity grants?
- Are all equity instruments (convertible debt, stock options, warrants, etc.) recorded correctly with technical memos to support accounting positions taken?
- Do we have documented financial controls, and have they been internally documented and tested?
- Has turnover and resignations caught the company without enough internal finance and accounting resources to finish the year and be ready for spring?
- Are you ready for tax season or want to chart a tax strategy course for the coming year.

WHAT TYPE OF AUDIT DO YOU NEED? AICPA VS. PCAOB EXPLAINED

The American Institute of CPAs (AICPA) was founded in 1940. An AICPA audit is a less stringent financial focus. It's an audit opinion that concentrates on providing assurances to stakeholders that an organization's financial statements are accurate, reliable, and free of material misstatements. Most private companies will obtain an AICPA standard of the audit.

The Public Company Accounting Oversight Board (PCAOB) was founded in 2002 as a part of Sarbanes-Oxley. The PCAOB was formed in direct response to the many accounting scandals at that time that broke the public's trust in many publicly traded companies. A PCAOB audit will have two opinions, one for financial statements and the other, "Internal Control over Financial Reporting" (ICFR). ICFR refers to your control environment and effectiveness. Because a PCAOB standard is more complicated, the audit will differ with lower materiality levels (larger sample sizes, small-dollar amounts for errors, and omissions). These lower thresholds are due to how the public markets use the "audit" opinion for investments.

TECHNICAL MEMOS

Does your company have the bandwidth and resources to implement the ASC 606 Revenue Recognition or the ASC 842 Accounting for Leases standards? Charles River (CRCFO) has the experience and resources to prepare these memos, implement the accounting on your books and records, and work with your auditors to get the memos approved.

CASH FORECAST AND AUDIT IMPLICATIONS

- Do you find yourself in a thinly capitalized position?
- Do you know that you are required to show cash runway one year from the date of your audit opinion to avoid an opinion that you are "no longer a going concern"?

One of the requirements included in ASU 2014-15 is to discuss whether there is substantial doubt about the entity's ability to continue as a going concern. Doubt is considered to exist when aggregate conditions and events indicate that it is probable the entity will be unable to meet obligations when due within one year of the financial statements issue date or available-to-be issued date. The satisfaction of this requirement means preparing a meaningful cash forecast depending on the date of your audit report. For example, a March 15, 2022 audit opinion must demonstrate the ability to have funds to be an operating entity through March 14, 2023.

FINANCIAL CONTROLS

As part of a PCAOB audit standard, your "Internal Control over Financial Reporting" (ICRF) environment is evaluated based on a COSO framework, a model that outlines your internal control. There are three types of internal controls:

- Those that affect a company's operations
 - Those that affect a company's compliance with laws and regulations
 - Those that affect a company's financial reporting
1. The company's top-level environment with respect to control. This component is known as the Control Environment.
 2. The assessment of risks of the various processes and data points that feed into the company's financial reports.
 3. The way controls are designed and implemented within the company to address the identified risks. This component is known as Control Activities.
 4. How information within the company is gathered and shared, both to the company personnel responsible for financial reporting and external users of financial reports. This component is known as Information and Communication.
 5. How the effectiveness of these controls is monitored by company management.

A material weakness in ICFR exists if there is some flaw within the company's overall control system such that it is at least reasonably possible that a material misstatement in the company's financial statements will not be prevented or corrected.

Having an assessment of your internal controls will help the auditors access the levels of materiality in preparing your audit program.

PERSONNEL AND RETENTION

Has the great "resignation" affected your organization? Charles River CFO (CRCFO) provides flexible finance, accounting, and human resource staffing to stabilize your organization and get you through your busy season. Our expert professionals can:

- Provide both technical expertise to get you through an audit and operational to address your board of directors and audit committees.
- Can work with valuation firms to get your 409a updated.
- Keep accounts payable or receivables up to date.
- Close the books and work on the judgmental areas of accruals and equity.
- Can conduct a benchmarking study to determine year-end compensation and equity grants to employees.
- Can audit your employee practices and recommend areas to improve retention.
- Provide fresh ideas for employee relations.

Are you ready? Do you need additional financial expertise? Now is the time to engage Charles River CFO to assist you with these year-end activities and preparation for your audit. Our industry experts provide the right resource for your needs.

Interested in learning more about how a strategic CFO from Charles River CFO can benefit your firm? Contact Charles River CFO at info@crcfo.com to have a confidential conversation about your requirements and how our experience can contribute to your success.