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Filling the Gap in Accounting and Financial Expertise™



Perspective from Marc Blythe: Five Ways to Maximize the Client/Auditor Relationship

As the convergence of U.S. GAAP and IFRS standards continues, the new rules will have a significant effect on how all companies report financial results and how firms audit those results.

Forward-thinking companies and audit firms will act now to maximize their relationships.

It's an old scenario in the world of accounting and financial reporting. The client thinks the firm's requests for information are too onerous, the firm's partners are not sufficiently involved, and the fees are too high. The audit firm thinks the company's accounting issues are not satisfactorily documented, the corporate management team is not sufficiently aware of the issues, and the firm is spending too much time on out-of-scope services. Can these conflicts be resolved?

The good news is a resounding yes. The not-so-good news is that the comprehensive changes due to start taking effect in 2011 under the converged U.S. and international rules and regulations make it more urgent that clients and audit firms set about optimizing their relationships now – for the mutual benefit of both parties.

At Blythe Global Advisors, we've been observing this situation for a long time from both sides of the discussion. Here, in our estimation, are five ways to maximize the client/auditor relationship.

- 1. Commit to the long term.** From our perspective as objective observers, we've found that switching audit firms rarely saves money. In fact, companies that switch audit firms just to save fees often end up spending as much or more – and that's after using precious time and resources to research, interview and select the new firm. For starters, there's the difficult (and sometimes expensive) getting-to-know-you phase where the new firm might have different processes or different evaluations and assessments that put more requirements on internal staff.

We have found that it's more efficient in the long run for the parties to try to resolve their issues. A frank, comprehensive meeting to clarify respective needs, priorities and expectations can get both parties back on track. If the issue is the firm's ability to provide the required level of experience, companies can request a change of team or have the current team augmented with more experienced resources from another office. If the issue is fees, audit firms need to make sure that clients understand how fees are determined, the amount of time that will be spent on the audit and by whom.

In addition to committing to the long term, using fewer service providers can benefit both clients and firms. Companies can reduce overall costs by leveraging a larger scope of work in exchange for top resources and greater volume discounts. For the firm's part, a larger

scope of work doesn't just increase revenue. It enables them to provide clients with a more comprehensive picture of the state of the business.

All of the above said, there are issues that warrant changing firms if repeated attempts at improvement come up empty. We put the following example concerns into that category:

- Breach of trust
- Lack of chemistry with practice leaders
- Lack of industry-specific knowledge or in-depth understanding of the company's business
- Insufficient technical experience
- Insufficient resources to accommodate multiple domestic or global locations

2. **Communicate regularly.** The objective here is simple: Minimize last-minute surprises to the CFO or CEO. Yet, it's our observation that few companies or audit firms give this issue enough attention – to their mutual detriment. An effective and efficient audit process requires regular communication to monitor expectations/schedules and to ensure the timely identification and resolution of accounting issues.

Let's be clear: Audit firms are in the business of reducing their risks and making sure their work stands up to review by outside regulators. It's why they were hired. Managing the audit for maximum efficiency is not their priority and identifying/resolving accounting issues is not their principal responsibility – nor should they be. A schedule of regular communication enables the client to own the audit process and take control of any emerging accounting matters – both of which help control costs. Yes, problems will still crop up occasionally. It's inevitable. However, having regular and frank communications will help both sides handle such situations more efficiently.

So, when having that discussion about respective needs, priorities and expectations, be sure to include a calendar of key checkpoint meetings with an explicit understanding that both parties will come to the table prepared for a productive discussion.

3. **Ensure senior management on both sides is sufficiently involved.** This is a thorny problem. In fact, if you're a CEO, CFO or partner reading this, you're probably groaning right now. When you get to the senior management level – whether on the client or firm side – time is (major) money and often heavily scheduled well in advance. On the other hand, the senior management/partner position is where critical experience and responsibility reside. It's the proverbial rock and hard place that's been made worse by the increasing number of rules, regulations, internal quality control reviews, peer reviews, etc. that keep these executives up at night.

When setting expectations, be sure to include a statement about how much senior management involvement is needed on both sides to ensure a successful audit – and how it might affect fees. CFOs – immersed as they are in critical work with hard deadlines – nonetheless need to stay ahead of any potential accounting issues and have the resources in place (contracted, if necessary) to resolve them for the audit. Partners need to ensure that CEOs and CFOs are focused on the same big picture issues as they are. And, partners need to make sure that audits are completed according to client deadlines.

To solve the dilemma of overbooked calendars, we advise taking advantage of those less busy times between quarterly and annual reporting to schedule these senior management meetings.

- 4. Make sure the company has the right skills and experience in place.** This issue falls squarely on the client side. Simply put, many internal accounting resources are not capable of staying on top of constantly changing accounting pronouncements or addressing the implications of entering into major agreements and contracts on their own. Yet, many companies continue to rely on these staffs to handle such complex projects. When the files are sent to the auditors, the bad news flows back that the documentation is not correct/complete or that a contract's language did not result in the anticipated accounting outcome. What initially seemed like the efficient use of permanent staff turns out to be a waste of resources – and perhaps even lost revenue – in addition to dragging out the audit process.

When there's an open and trusting relationship, clients should ask firms for feedback on their internal staffs and make changes where possible. In those situations where either the company can't provide the necessary skill levels or the firm is precluded from providing the needed advice, the most efficient solution is to engage outside experts with Big Four experience. These experts can handle a variety of projects such as researching, identifying and resolving complex accounting issues; helping to prepare necessary technical memos/documentation; and assisting in crafting contracts/agreements that produce desired outcomes.

The bottom line? Improve internal staff to the extent reasonable and then let them perform the operations they do best. Use outside experts to fill the gaps in financial and accounting expertise and help meet reporting requirements – especially as the converged rules and regulations take effect.

- 5. Schedule an annual evaluation.** Companies rarely take the time to do a formal assessment of the services received during a fiscal year. Firms – especially those whose scope of work includes both accounting and financial reporting – should be evaluated on the quality of the team, overall responsiveness, the consultation process, proactive communication, quality of recommendations, understanding of the company's business and, finally, results versus expectations.

In addition to being critical to the success of a long-term relationship, such annual reviews provide a forum for both sides to agree on process changes and to restate respective needs, priorities and expectations for the coming year. When discussing the coming year, companies should include revealing if they are planning a merger, acquisition or IPO. We recommend conducting these reviews within 60-90 days of completing the annual audit.

Although the converged rules and regulations will be phased in throughout 2011 and 2012, companies need to keep in mind that the new rules will affect how all companies – large and small, public and private – report financial results. With the pressures and challenges that these changes will fuel, we at Blythe Global recommend that clients and audit firms take steps now to maximize relationships.

If you missed my April 2010 newsletter discussing the new converged rules for revenue recognition or my June 2010 newsletter discussing the new converged rules for lease accounting, [click here to read them now](#).

**To discuss this important topic further,
contact marc@blytheglobal.com**

Here's an update of services we have provided or are providing to clients since my last newsletter.

- **Helped a \$1B private company resolve a revenue recognition judgment issue with their audit firm.** With no guarantee of what the outcome would be, Blythe Global researched both sides of the issue in detail and helped produce a 10-page technical memo that ultimately supported the company's position. The memo was reviewed by the audit firm's national office which agreed to the position.
- **Assisted a venture capital company address an accounting issue that popped up during the annual audit.** Blythe Global helped draft a technical memo that resolved the issue and helped to get the audit back on track.
- **Currently helping a public technology company manage several potential acquisitions.** Blythe Global is providing due diligence services, preparing historical financial statements for one of the target companies and helping with integration efforts for another target company.
- **Assisting a venture capital technology company prepare its initial public offering.** In addition to helping develop a comprehensive timeline for the IPO process, Blythe Global is preparing financial statements in accordance with public company rules and regulations.

To learn more about Blythe Global Advisors and our solutions, visit our web site at www.blytheglobal.com or call 949-757-4180

About Marc Blythe



As president of Blythe Global Advisors, Marc Blythe brings more than 20 years' experience advising companies of all sizes across all industries on their accounting and financial reporting requirements. His areas of expertise include revenue recognition, equity compensation, mergers and acquisitions/purchase accounting, restructurings/impairments, consolidations, lease accounting, derivatives and debt. Prior to forming Blythe Global Advisors, Marc was an audit partner at Ernst & Young.