

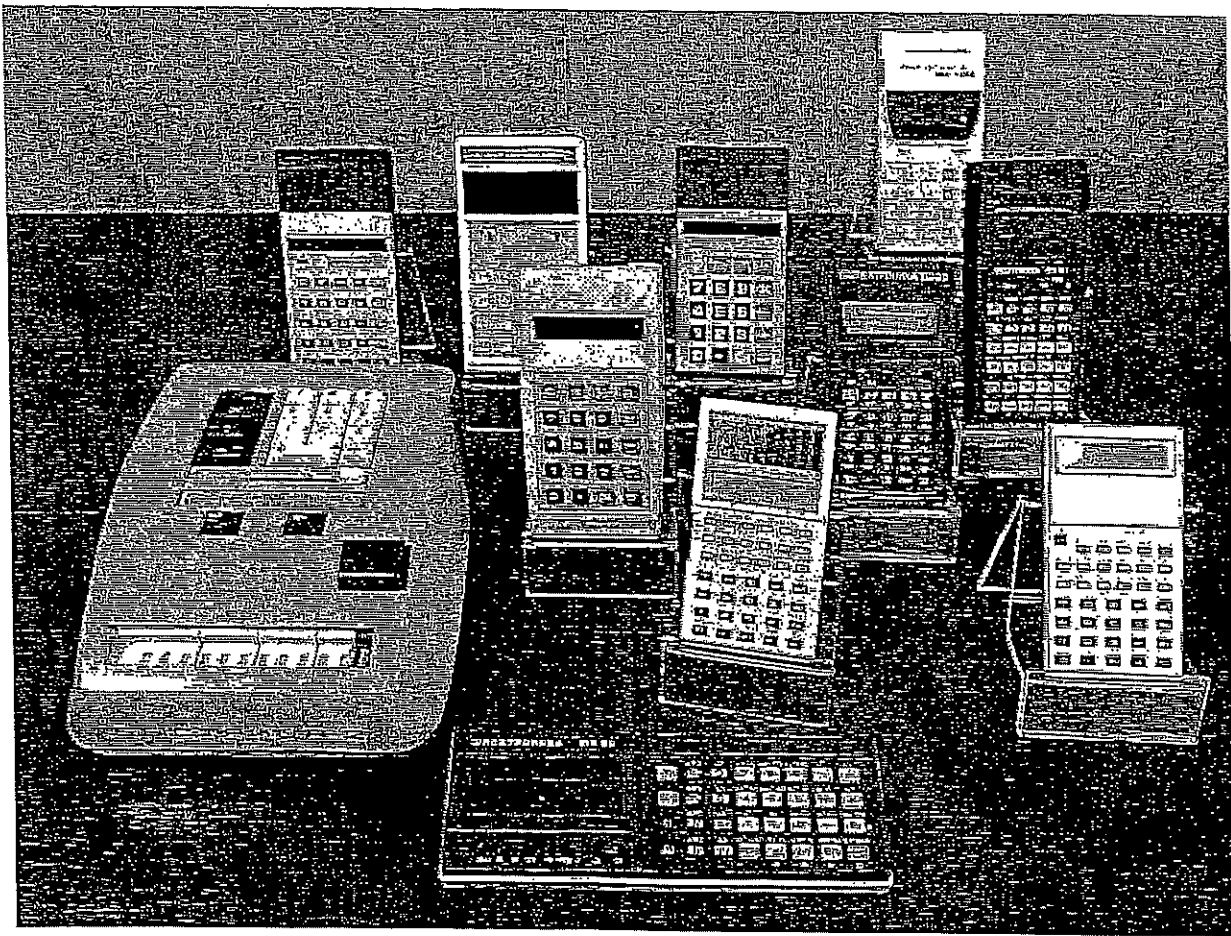
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# How Much Do Financial Audits Cost? At Least \$10,000 Dollars.



Cameron Keng Contributor

*I cover a lot of taxes and even more about business.*



MINSK, BELARUS - APRIL 13, 2018: Elektronika calculators on display at an interactive museum of old computers at the Belarusian State University of Informatics and Radioelectronics (BGUIR). Viktor Drachev/TASS (Photo by Viktor Drachev/TASS via Getty Images)

Financial audits are expensive. There's no way to beat around the bush, when we talk about costs and "audits." They're never cheap, if done properly by a reputable Certified Public Accountant ("CPA"). Rarely, if ever will you be able to call a random CPA and obtain a quote for an audit. I've yet to find a client that was able

to get a quote without turning over a great deal of information. But, I promise that an audit will never be less than \$10,000 dollars.

## **Why Audits So Expensive?**

There are two main reasons for the cost of an audit being expensive. The first reason is the liability a CPA accepts, when they provide an audit. A CPA risks their reputation and financial well-being with every audit they conduct. If a company that was audited is found to be fraudulent, then obviously the CPA firm or individual professional is probably going to lose their license or lose all credibility. Afterwards, the CPA firm is left open to civil law suits that will cost them absorbent legal fees and penalties. Thus, CPA's giving their opinion through a financial audit are putting their lives on the line with every engagement. It's always a delicate balance between a CPA making the client happy with a clean audit and their own individual risk.

The second reason is the amount of labor and time required to perform an audit. If a CPA has you as their only client, then it could take between a week to a month to conduct a thorough but straightforward financial audit. Thus, an audit is unique to each company cannot be automated. Automation would be counterintuitive to the purpose of an audit. An audit must be customized to every set of books provided by a company in order to understand and determine the risk involved.

## **What Are The Steps To Conduct An Audit?**

There are many steps in performing an audit. But, there are three main phases in conducting an audit. The three phases are the Planning, Fieldwork and Reporting phases. There are 16 steps in these three phases that you'll need to survive.

### **1. Planning Phase**

1. Receive vague audit assignment

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2. Gather information about audited company
  3. Determine audit criteria
  4. Perform a risk assessment
  5. Refine the audit objectives and sub-objectives
  6. Choose methodologies
  7. Budget each methodology
  8. Formalize the audit plan

## 2. Fieldwork

1. Formalize the audit program
2. Perform audit steps
3. Document results in the working papers
4. Review working papers

## 3. Reporting

1. Write findings
2. Confer on findings with client
3. Conclude
4. Finalize report

## **How To Minimize Costs Of An Audit?**

Considering the expense of an audit, it's fairly common for a lot of entrepreneurs to ask how do you reduce the cost of a financial audit. Minimizing the cost of an audit is going to rely on the condition of your books and records. If your books are immaculate, then the auditors are going to have a fairly easy time reviewing them and conducting their tests to determine that everything is correct and presented fairly. CPAs would define a good set of books as one that uses an electronic system such as quickbooks, xero or some other industry standardized

accounting system. Making sure that whoever is the bookkeeper is making each individual entry with details and proper documentation to prove its existence is going to be the most important function they can perform.

The only other option is to hire someone cheaper to help perform the clerical tasks that the CPAs must perform. This allows you to pay much less for labor, when compared to the CPA's hourly rate. A great deal of the time spent in an audit is related to clerical and data-entry due to the nature of the work. Providing someone the CPA can use to help with the work is going to save you more in the long-run.

### **What Are Audits For?**

There are very limited reasons for having a financial audit performed. A few are:

1. You're a public company and required by the SEC;
2. You're a non-public company, but required to by your investors;
3. You're accepting funds or grants from a governmental entity at the federal, state or municipal level;
4. You're required to by a bank on the condition of a loan you received;
5. You're looking to join the Forbes 100 list or something similar;
6. Someone is requiring you to conduct an audit and you've agreed.

Generally, most people will never need to go through an audit. It's fairly frustrating for all parties because you're going to be bothered on a regular basis for documents that you likely need to find and many times need to prepare from scratch.