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Changing Audit Firms

7 Steps to Streamline Your Auditor Transition

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Was your annual audit, or quarterly filing process with the SEC, more painful than usual? Did you hear more about petty issues rather than meaningful insights? Did you have to re-orient a new team of auditors just like last year? There are a multitude of reasons to consider a change, including simply seeking a new independent perspective.

According to a post by Nicole Hallas of Audit Analytics, *when looking at companies across all revenue groups and across all auditors, the average tenure length is 15 years, with a median of 10 years*. The analysis also shows that companies with a higher revenue are more likely to retain their audit firm for longer time periods. While there are several different perspectives on the pros and cons of changing audit firms, developing a new auditor relationship can be a daunting task.

Whether you're looking for a new perspective, enhanced access to resources or greater responsiveness; it is important to prioritize the transition and not take anything for granted. The transition of audit firms can be made easier with a vetting process to identify the right firm, people, processes and technology to meet your needs towards seamless onboarding. Here are some steps to help ensure a smooth transition.

Seven Steps for a More Streamlined Transition

1. Get to know the Core Team: Do not hire an audit team without first getting to know the proposed Audit Partner and Senior Audit Manager. Accepting a blind core team is always risky since there are good and bad teams within audit firms, especially taking into consideration the fit of industries, size and governance structures. Be careful to assess personalities in addition to technical skills.

2. Understand their Approach: A new auditor can bring a fresh take on a technical issue, deeper industry or business understanding, and greater access to global resources. Management and audit committee members should ensure they are aligned on any changes in approach, timeliness and access they seek regarding the new firm. This will help mitigate challenges from surprise issues, cumbersome information exchange and lack of communication. Also, seek to understand their holistic approach to audit quality as QC partners coming late in the process can trigger audit delays. Validate their approach by asking for key audit quality indicators and run some scenarios by them to help with your understanding.

3. Maximize the Initial Meeting: Meet with your prospective audit team as part of the due-diligence process. This will help in addressing the prior points in gauging accessibility, responsiveness, service approach, and the depth and breadth of resources they offer. It's the time to be candid about what wasn't working with your previous auditor, and what the goals

and expectations are for your business and the relationship. The more open you are, the more quickly a new auditor can be effectively vetted. Let them know that you demand honest transparency.

4. PCAOB Inspection Reports: The Public Company Accounting Oversight Board (PCAOB) assess compliance with certain laws, rules and professional standards of audit firms' work for public companies, other issuers and broker-dealer clients. You can quickly look-up the perspective firms' Inspection Reports through the PCAOB website. These reports summarize any deficiencies identified through the inspections process and can be insightful.

5. Test Technology: Innovation in audit process and technology can help companies create more efficiencies and transparencies. Companies should make sure that onboarding to a new auditor's client portal will be both secure and user-friendly to avoid tech-related headaches. Your client portal should be a one-stop shop for project status, resources and insight. Ask for a demo to make sure the platform will meet your needs.

6. Disclose Potential Change & Decision: Consider your stakeholders in this process, especially creditors and regulators. Confirm with company debt covenants that the new audit firm will be acceptable, especially if considering a smaller audit firm. For public companies transitioning auditors, the SEC requires a Form 8-K disclosure within four business days of the decision. It is a best practice to have full transparency with your stakeholders on the basis for the change and to share your audit committee's approval.

7. Get Started: Provide open lines of communication so your new auditor can ask the questions they seek answers for. Also, ensure timely access to requested data to help ensure they can get started immediately. Work with your new firm to determine the right cadence for in-person meetings and informal check-ins to stay on track.

Conclusion

Don't take for granted a smooth external audit firm transition. Some upfront work should help to mitigate the risks of a bad-fit.

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