



STRATEGIC
FINANCIAL
CONSULTING

Audit Readiness

Are you Ready?
(For Audits and IPOs)

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THE AUDIT

WHAT

An audit is the process of analyzing a company's operations and examining and evaluating the financial statements performed by an objective third party.

WHY

The purpose of an audit is to make sure that the information contained in financial statements is fair and accurate and that a business is in compliance with all necessary rules.

WHO

Required by investors – public and private

PUBLIC COMPANIES

- Securities Exchange Act of 1934 defines public companies and requires reports.
- Required reports include annual Form 10-K, quarterly Form 10Qs and Form 8-K
- Reporting timelines
 - < \$75M: 90 days fiscal year end & 45 days quarter end
 - \$75-700M: 75 days fiscal year end & 40 days quarter end
 - >\$700M: 60 days fiscal year end & 40 days quarter end
- Sarbanes-Oxley Act of 2002



PRIVATE COMPANIES

- Private companies are often more vulnerable to fraud and employee theft, and an audit identifies internal controls concerns
- Private companies often have audit requirements for banks, investors, contractual requirements
- A private company needs an audit if contemplating going public (IPO)



WHAT DO AUDITORS LOOK AT



BALANCE
SHEET



PROFIT AND
LOSS



INTERNAL
CONTROLS

BALANCE SHEET ITEMS

Cash/Investments: confirmations, reviewing bank reconciliations

Prepaid: review of underlying support

Receivables: confirmation process

Inventory: physical count

Fixed Assets: annual physical counts, test depreciation calculation

BALANCE SHEET ITEMS

Payables: search for unrecorded liabilities

Accruals: payroll, bonuses, Clinical Research Organization

Debt: confirmation, test interest calculation

Equity: statement of equity, tie to receipt of investment, test classification

Stock Options: 409a valuations up to date?

PROFIT AND LOSS ITEMS

Revenue recognition:

- review contracts
- receipt of payment for goods
- cut off testing

Interest income and expense

- source documents
- test receipt/expenditures

Expense testing:

- biggest expense is typically payroll
- test other expenses
- look at C-suite expenses
- test deferred compensation
- Black-Scholes test

INTERNAL CONTROL ITEMS

Budget to actual: leadership review

Reconciliations: signed off by accounting leadership and CEO

Closing checklist: timing, deliverables and qualified individuals

Segregation of duties: one person creates, one person reviews and approves

Employee offer letters: identified authorization process

INTERNAL CONTROL ITEMS

Financial procedures: all major areas documented

Personnel: staff trained

Annual test: annual controls test by unrelated staff

Employee handbook: HR in place to manage, update and train

Internal controls memo: annual memo documenting areas and tests

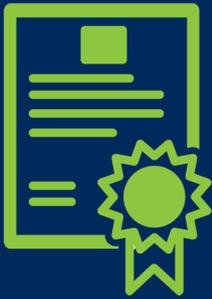
GOING PUBLIC - THE BUFFET



TRADITIONAL IPO



REVERSE MERGER



FORM 10



SPAC

IPO TIMELINE: 12–18 months

- **Audit of 2 years** of financials
- Leave time for **technical accounting memos**
- Hire firm separate from auditors for **tax accruals**
- **409a valuations** reviewed by audit firm
- Preparation of **financials**
- Gathering of **corporate records** and housekeeping

IPO TIMELINE: 3–12 months

- **Select bankers** for listing application
- Find provider of **D&O insurance**
- **Draft S-1**
 - Corporate story, team, significant contracts
 - MD&A
 - Audited financials and footnotes
 - Legal review and comments (internal and external)



IPO TIMELINE: 1–3 months

- File S-1 with SEC
- Answer Comments with auditors
- Update Financials
- Roadshow
- Price IPO
- **GO PUBLIC**



DISCUSSION





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Charles River CFO welcomes
the opportunity to provide you
Audit Readiness Services.

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