NARRATIVE
FINANCIAL MANAGEMENT

CASE STUDY

AUDIT SUPPORT

Growing company aces its first-ever financial statements audit.

SITUATION

The Client, due to its size and strategic objectives as a privately held B2B services and technology company, wanted to initiate annual financial statement audits. During the prior five years, the company had seen mixed results both from its outsourced and its full-time financial teams.

OPPORTUNITY

The first audit for a company that's been operating for any period can be a painful process for several reasons. In this instance, two major obstacles had to be overcome before the completion of the audit. These obstacles were caused by inadequate documentation of the accounting for an equity transaction and by poor policy development.

ACTION

With a deep understanding of the Client's business, gained in part from previous experience in the space, our fractional CFO was able to successfully:

- Develop and defend a Black-Scholes valuation model underwriting the accounting for the equity transaction
- Create and justify the revenue recognition policy while giving careful thought to the required implementation of new revenue recognition guidance the following year

BENEFITS

The audit was completed on time and within budget. Additionally, changes to the previously presented financials were minimal and the Client's former practice of revenue recognition was formalized and defended. Because the new revenue recognition guidance was considered in the drafting and defense of the existing policy, the cost of implementing the guidance was minimized for this client.

DISCUSSION

All financial statements rely on managerial estimates and judgement, which should be informed by knowledge, both of the business and of the context in which it operates. This type of judgement is the responsibility of the CFO whose orientation requires:

- A wider scope of vision than that of the accountant
- A deeper financial expertise than the operating or sales orientation typical of senior operating executives lenders for the benefit of the client

For companies that can't justify the expense of a full-time CFO, the right fractional CFO can be a very effective source for policies and processes which support quality financials for a business now and in the future.

This case study is based on an ongoing fractional CFO engagement to provide oversight of the Client's accounting, tax, financial planning and analysis, and its treasury management functions. Engagements like this are a very cost-effective way of accessing a sophisticated financial perspective. This case describes one of several valuable outcomes to the Client over the course of the engagement. These fractional engagements typically last until a client has grown enough to necessitate a full-time CFO.

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