HHM Case Study
HOW FINANCIAL AUDITS IMPROVE INTERNAL COMMUNICATION

COMPANY/INDUSTRY - A NATIONAL RETAIL CORPORATION WITH MULTIPLE RETAIL OUTLETS

SYNOPSIS
In performing financial audits, CPAs are required to understand how a business operates and the financial processes that are in place. Most business owners rely on management personnel to provide critical financial data. This data is needed to make crucial decisions for the company. Through the audit process, management is aware that there's a high possibility that the external auditor will uncover errors, whether they be intentional or unintentional. It is important to understand that the source of the issues and/or errors can be due to lack of or poor internal communication.

CHALLENGE
HHM was hired to conduct an annual financial statement audit because the company was experiencing continued cash shortages and recurring losses.

DISCOVERY
During the audit we discovered the ownership group was not well engaged with senior management. Because of our expertise in auditing retail companies, we assessed inventory as a high-risk area and concentrated a large amount of our time on this issue. During the audit we noted the following operational issues:

1. There was a decentralized purchasing structure in place in which each location ordered inventory. This led to slow inventory turns and excessive working capital being invested in inventory that was not being sold.

2. The company had no established reorder points for inventory items, and that 30% of the items on-hand had not sold within a two-year time frame.

3. In addition, inventory items were improperly valued and often sold below cost.

Simply stated, the company had poor internal controls over their inventory process that contributed to their unprofitability and continued cash shortages.
SOLUTION

HHM quantified these deficiencies and provided an action plan for improvement. Senior management was fairly knowledgeable of the deficiencies, but did not communicate the details of the deficiencies to the ownership group. We brought both parties together and communicated the many opportunities for improvement.

RESULT

As a result of our audit, the ownership group is now more involved in operations, and the two parties are now working closer to improve the financial performance of the company. The benefits of having the financial statement audit performed far outweighed the costs.

This is clearly one example in which an independent financial statement audit proved its value. These stories are common and often involve the auditor providing pertinent information to the ownership group that management fails to provide.

TO LEARN MORE ABOUT FINANCIAL STATEMENT AUDITS AND HOW HHM CAN HELP BE YOUR TRUSTED PARTNER, CONTACT JASON MARTIN AT JMARTIN@HHMCPAS.COM OR CALL 423-756-7771.