MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 50 Transcript

Announcer (5s):
Welcome to the Maximize the business value podcast. This podcast is brought to you by mastery partners, where our mission is to equip business owners, to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which fuels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host CEO mastery partners, Tom Bronson.

Tom Bronson (36s):
Hi this is Tom Bronson and welcome to maximize business value. A podcast for business owners who are passionate about building long-term sustainable value in their businesses. In this episode, I'd like to welcome our guest. Jeff Owens a partner with Armanino who specializes in audits. Jeff and I are both members of provisors a nationwide professional networking group that you, if you're a longtime listener, you've heard me talk about this group before we have many guests from provisors. Jeff and I recently chatted about the exciting world of audits. Now you might think I'm poking a little fun at auditors and maybe I am just a little, but audits are an important part of preparing a business for a transition, and they may be more helpful to you in your business than you realize so many business owners avoid audits like the plague, but businesses that are prepared for an eventual transition should think about getting an audit because it can really help enhance and improve the value of the business.

Tom Bronson (1m 46s):
So welcome to maximize business value. Jeff,

Jeff Owens (1m 51s):
Thank you, Tom. I'm really happy to be here. In fact, I've been anxiously awaiting for this moment all week, just to get to see you and talk to you and, and talk to your listeners. I know you got a lot of great listeners and I know there can be a lot of confusion about what an audit is and what it isn't. And hopefully today I can dispel some of those myths or maybe even, you know, alleviate some of the concerns that some of your listeners have about, you know, maybe meeting to engage in auditor. So just grateful for the time that we've got here today, Tom, and looking forward to it. Awesome.

Tom Bronson (2m 25s):
Awesome. Well, tell us a little bit about your company. You work for Armanino. Tell us about Armanino.

Jeff Owens (2m 31s):
Yeah, well, Tom, I'm amazed number one that you said it correctly. There's so many vowels in there, right? I, I hear it pronounced many different ways, but you got it. You got it. Perfect. So Armanino is a top 25 CPA and consulting firm. We have employees all across the United States. In fact, we're up to about 1600 employees and I had to go look that up before jumping on this podcast with you, Tom, because it seems like every day we're adding more and more people to our firm. One of the, one of the many things I love about this firm is that we're one of the fastest growing CPA firms in the country.

Jeff Owens (3m 11s):
We, we are constantly adding to our employee list and our client lists because we really value what we do. And I think trying to add and maximize value to our clients is really the core of why we exist. Really trying to be our trust. Our client's trusted advisors, you know, while some firms may be organized and structure themselves with the traditional service lines of audit and tax and consulting, we really shift our thinking in a way that's more focused on industry perspective. So technology non-profit, you know, manufacturing and distribution, because we feel like that's what our clients want from us. And so it's just really fun to be able to really add value to our clients and, and see our growth over the years.

Jeff Owens (3m 53s):
That's awesome.

Tom Bronson (3m 54s):
Too many business owners have CPA firms that really aren't that trusted advisor, right? They're the people that do their taxes at the end of the year or, or, you know, they, they interact with their CPAs. I'm a big fan of having developing relationships. And it sounds like that's sort of the core values of what you guys have also at, at Armanino. So tell us, let's get a little personal, what is your background and how did you get into auditing?

Jeff Owens (4m 23s):
Yeah, so I can't believe it, but I've been in public accounting now for almost 21 years, I guess, time flies when you're having fun or something like that. But I started my career here in Dallas with a firm we used to know as Arthur Anderson, that didn't last too long. We, we quickly became KPMG here in the Dallas area. And I joined some of my partners and mentors in that transition, but was with KPMG for about nine years. And I've been with Armanino now for about 12, 13 years. And so why did I get into public accounting and specifically auditing? It's a great question. I don't know a whole lot of people who start their career and say, I'm going to make a longterm career out of it.

Jeff Owens (5m 6s):
A lot of people view public accounting as kind of that, you know, stepping off point, spend a couple of years in public, then go work in industry, you know, work to be a controller CFO that never was really in the cards for me. I, I originally started my career in public or really started my accounting degree pursuit when I was in college because I wanted to be an FBI agent. I wanted to carry a badge and have a gun and chase down the mafia. And, you know, I don't know, tax evasion seemed pretty cool to me. And I thought if I got to carry a gun and chase people through the alleys that, you know, that'd be unique, but that's not in, that's not what ended up happening for me.

Jeff Owens (5m 47s):
I really fell in love with the people that I got to work with in public accounting. And I felt like I was adding significant value to the clients I worked with and the people that, you

know, I, I got to work with around me at the firm and I've never looked back. I've just been doing this the whole time and just grateful for the many people around me. That's mentored me throughout the years.

Tom Bronson (6m 9s):
That is a, that is an unusual decision. You wanted to go to work for the FBI, but you wanted to go the accounting route. And, and probably a lot of people don't realize that the FBI and the CIA and the secret service hire a lot of accountants.

Jeff Owens (6m 25s):
Yep. That's actually why I chose accounting and I was originally a psychology major because I wanted to work for the FBI thinking, you know, I'd go in there with a psychology degree. And then I read that they hired more accountants than they do psychologists so quickly changed my major. But you know, the, the plans changed very quickly after that.

Tom Bronson (6m 46s):
That's a great story. That's a great story. I, you know, that, it's funny. How, how plans sort of change, I guess, as a, as time evolves. Right. You know, as you said, times or time flies when you're, when you're having fun or a friend of mine used to say, time's fun when you're eating flies said the frog. So, so let's jump into audits because that's what everybody's here for. Let's talk about audits first. Can you explain what an audit of a company's financial statements means?

Jeff Owens (7m 18s):
Yeah, so essentially what an audit of a company's financial statement means, Tom, is that we are going to get in and understand the internal control environment of the organization we're going to do. What's called a risk assessment of the organization to determine where we think those risks truly lie. And then we're going to design audit procedures that mitigate those risks and audit procedures can vary depending upon the account that you're auditing. But the ultimate goal in an audit is to issue a set of financial statements, which is typically your balance sheet, your P and L your statement of cash flows, and then a whole host of footnotes that support those financial

statements, you know, details, accounting policies, as well as, you know, highlights significant balances and transactions during the year.

Tom Bronson (8m 8s):
So are there are different types of audits that can be performed.

Jeff Owens (8m 12s):
Well, I've heard a lot of people elude to audits in different ways. So I think I can dispel one of those myths here and that an audit is an audit. There's not different types of an audit that you can get. Now there's different levels of assurance that a CPA can provide to you, an audit being the highest level of assurance that, you know, I or any CPA could provide. Now, let's go back to the lowest level of assurance. And that's what we call a compilation. Essentially, what a compilation is, is it takes your internally prepared numbers, your general ledger. And then we compile those financial statements in a way that is in line with GAAP, or generally accepted accounting principles.

Jeff Owens (8m 54s):
And certainly there different different methods or different principles that you can use in preparing financial statements. But GAAP is the most commonly used principle that is required by banks or investors. And so a compiled set of financial statements, again, just takes your internally prepared numbers and makes them look like nice and tidy gap basis. Financial statements, a review is a little bit more level of assurance that we can provide. And that starts with a compilation and then moves to a review by us applying inquiry and analytical procedures to those set of financial statements. So we'll sit down with management, we'll maybe look and see what happened last year, compared to this year, any big things that pop out, you know, we'll gain an understanding of why they popped out.

Jeff Owens (9m 43s):
We may look at, you know, revenue trends or industry trends to see if there's anything from a revenue recognition standpoint that maybe looks a little bit out of whack or maybe expense analyses that we'll do. And again, we're going back to management and we're gaining an understanding for those movements based on our conversations with

management, but we don't take it to the next level of tying things back down to source documentation. And that's where an audit comes in. So an audit starts with a compilation, then moves to a review through inquiry and analytical procedures. Then we get an understanding again of that internal control environment, and then any risks that we think exist within that organization, we custom tailor our procedures to mitigate those risks.

Jeff Owens (10m 28s):
And then we tie everything back to the source documentation. So we may run a sample and let's say we pick some revenue transactions or some expense transactions or some fixed asset addition transactions, we'll tie all of those back to the invoice, to the cash, inflow, the cash outflow, just to make sure that everything ties back to the detailed accounting records. So varying levels of assurance, obviously, as you move up the scale, there's a significant increase in the time and scope and the resources that are needed from the company side as well in order to get the work done,

Tom Bronson (11m 3s):
That is probably the simplest most concise explanation of the difference between a compilation or review and an audit that I've ever heard. Thank you. I think you've just answered tons of people's questions on that. I, I do have to interject here GAAP generally accepted accounting principles. I went to work for a, I sold the company one time to a big publicly traded company. And the guy that they gifted us as the CEO of the new company was sitting with our executive team about a week after the transaction happened. And he's berating us over of our profitability.

Tom Bronson (11m 45s):
And we said, Hey, this is, this is what you acquired and, and explain to us where you want to go. And he was very agitated and animated, and he said, don't you guys understand gap accounting, the gap between sales and profit. I don't think that that's what GAAP accounting means, but okay. In your world, that's that's excellent. Wow. So can anyone perform an audit or do you have to be licensed to do it on it?

Jeff Owens (12m 17s):

So anyone who is a CPA can perform an audit. Now they not any CPA, I guess may back up, can actually perform an audit. You have to have internal procedures. You have to have multiple layers of review and things like that, tuition and an audit report, but you, but any, any firm can typically issue a set of audited financial statements. And you do have to be licensed in certain States, Tom, some States require you in order to issue or a pine on a set of financial statements in their state require you or the firm to be licensed in that state.

Tom Bronson (12m 52s):
Okay. All right. That makes sense then. So it's not necessarily like tax where almost anybody can do tags in order to do an audit. If you've got to be a CPA. Got it. Correct. So how long do audits typically take and what are, what are you mainly looking for in an, in an audit? In other words, what constitutes a good audit?

Jeff Owens (13m 16s):
Yeah. Well, that can be a loaded question, Tom. There's a couple, couple of things in there that I can double click on, but an audit typically takes on a, on a recurring cycle. Let's say an audit typically takes between a week to, you know, maybe four weeks to eight weeks, depending on the size of the company. Really, if it's a pretty basic operating company, you know, that audit including, you know, financial reporting can take a week to two weeks. If it's a more complicated business with a lot of transactions and with a high volume of transactions with a lot of, you know, maybe movements of equity, some complicated rev rec you're talking about maybe, you know, two to three months kind of start to finish.

Jeff Owens (14m 2s):
But again, it really, it really depends mainly on the quality of the accounting records, right? If we got out there and nothing was in order, then an audit could take a lot longer than two to three months. I've seen some go on, you know, a year or two, just because they just don't have all the information that the auditor needs to get the, to get the audit completed.

Tom Bronson (14m 27s):

So the, the months timeframe, I think that that's what probably scares most business owners about how long can this take, I think, is it, is it fair to say that after you go through your, your first audit, that once you get on a recurring basis, it becomes easier perhaps because you've got better systems in of perhaps now, you know what you're looking for, that kind of thing. Is that a fair assessment?

Jeff Owens (14m 57s):
Yeah, Tom, it is. And I, you know, the, the first year of an audit certainly takes more time than the second year. I mean, we're having to get in there and understand the internal control environment, understand, you know, where quote unquote, the bodies are buried and understand where the risks are. And so that can certainly take some time, but on a recurring basis, yes. In, I would say you can, you know, if an audit took four weeks on the first year has probably taken two weeks in the second year, right? One thing that I really like about an audit and certainly I'm biased, but one of the things that I think an audit is really good at doing is creating a culture of financial accountability within the organization.

Jeff Owens (15m 39s):
I find that companies who have team members who know that at the end of the year, they are going to be audited. They operate with a certain level of precision that they may not operate with throughout the year. An audit is not going to be completed. And so you're right. And you're in the early years, it can take a little bit longer, but after that, it becomes turnkey. And as you know, if, if you're not changing audit firms every year, then I would say it most likely can, can significantly reduce in time and scope.

Tom Bronson (16m 12s):
I'll tell you, I want to tell you my own story. I've in my most recent company, our listeners already know I sold my last company about three years ago. And when we decided that it was time to, to go to market, this would have been around the kind of 2014 timeframe. We were already a sizeable lower middle market company, and it was time to do an audit. We had just elected not to do it in the years prior, but I will tell you that our financial records got sloppy, that, that we had some things that needed to be

challenged. And frankly, I didn't have a lot of, of trust in our financial systems that we had in place in the sea and the person who was our acting CFO.

Tom Bronson (17m 1s):
And so we engaged in an audit that audit would have been, probably counted among a horror story with, with most business owners and with audit firms like yourself, that thing drug on for nine or 10 months, it was like sitting and having a root canal for nine months straight. But at the, at the end of that audit, I will tell you that that several things kind of were pointed up to me that it's, that it's not only looking at the, the financial records of the business when it's helping put systems and processes in place so that you can manage and operate the business, but it's also looking for any potential fraud, right?

Tom Bronson (17m 45s):
That's, you know, that's what we hope to turn up and in any audit where, where it outside firm is auditing to for an acquisition or something like that, we're looking for things like fraud that, that you just don't find unless you get into this level of detail. And beyond that first year, which was an incredibly painful and expensive proposition in the subsequent years, I can verify exactly what Jeff was saying here. And that is that it was much easier the second time around and got even easier beyond that because we then had the financial controls in place that we should have had from the beginning.

Tom Bronson (18m 27s):
So my argument would be that that perhaps the business owner should have an audit done. If they've got an eye toward a, an eventual transition. And as we like to say here, every business will eventually transition, but as you've got an eye toward that translation transition, it is way better to, to rip that bandaid off when you're small enough and can put the right controls and mechanisms in place than it would be to grow, to being a lower middle market company that has just too many things out of control. So, which leads me to my next question, Jeff, at what point in a company's life stage, do you typically see an auditor engaged?

Jeff Owens (19m 8s):

Yeah. So I hate to answer every one of your questions, Tom, with it depends, it sounds like typical consulting move, but it does depend, right. It depends on really the complexity of that company. So, and really kind of what their capital structure looks like. Right. So where I typically see an audit be required is when there's some sort of triggering event related to cap, right? So a company may go out and need debt in order to maintain, you know, level of operations, or maybe they're looking to pivot and expand into a new service line. So they go and they seek capital from a bank. So going back to our review slash audit discussion that we had earlier, I typically see a reviews start for a company when they get about two to 3 million in debt from a bank it's typically.

Jeff Owens (20m 1s):
Now, if a bank is asking for an audit, when they've got two to 3 million in debt, I would, I would politely ask the banker to reconsider. In fact, I advise people all the time that the bank doesn't need an audit at this point, if there's sufficient collateral there to backup the banks, you know, I guess risk, then I would say an audit may not necessarily be needed, but where I see banks really start making a firm line is around that $5 million in debt. Mark is where I see a lot of banks. And again, it can vary depending on the bank and what their risk tolerance is are. But typically in, in my area, I typically see about $5 million of bank debt.

Jeff Owens (20m 42s):
Now, when it comes to on the equity side, I think that really depends on the equity investors. You know, whether it's a VC or a private equity investor, but I typically see when they started deploying capital about the $10 million Mark is where I see those VCs start really requiring an audit at that point. Well then,

Tom Bronson (21m 5s):
Yeah, that makes sense. So, so you, I think would agree based on this with my assessment that do it sooner than you think you need to perhaps, but certainly if your bank is requiring it or investors are requiring it, then then the better prepared you are in advance of that probably the better you are. Well, one, one more question before we take a quick break, what typically causes an audit to go off the tracks and what steps can, can an owner or management take to ensure that the engagement goes according

Jeff Owens (21m 36s):
Plan? Yeah, it's a great question. So I think the most common issue, Tom, with audits going off the track really relates to just the company, the company is simply not being prepared. So what does that look like? Right. It looks like a number one, not fully understanding the scope of an audit, right? Thinking that we're just going to come in and ask some questions and not dig into the details. And then, you know, surprised by, you know, the information that we're asking for, I think is one issue. And then I think too, you know, not having solid, detailed accounting records. Now, what I'm not suggesting is that we have to have a stack of papers, right. Supporting all of our transactions each year, but having a good quality general ledger system that, that tracks information throughout the year, in a way that's useful for the audit, right?

Jeff Owens (22m 27s):
Some systems like a quick books do an okay job, right? But sometimes based on the complexity of a company, you may need to invest in something more robust in order to track the information. And then I think too, being able to give the auditors information in a way that's ultimately useful for the auditor, right? You don't just want to hand over a book, you know, the complete general ledger system to an auditor and say, here you go. That's not going to make the audit go smoothly. You want to have some supporting schedules. Like for example, if I want to come in and audit fixed assets, right? Your ending balances of fixed assets for the year, if you just handed me a general ledger, I wouldn't know where to start.

Jeff Owens (23m 8s):
I don't know what the additions were this year. I don't know what the retirements were. I don't necessarily know what your depreciation expense is or was for that year. And so doing what we call like a fixed asset roll for providing supporting schedules to help the auditor very clearly see what they're looking at, right? The more information you give us, likely the less questions we end up asking, right? And the more clear and precise of information you give us the quicker we can turn it around. So I would say that's what causes it. Most of the time, Tom Tom is to go off the tracks is when the client's just

simply not prepared. And what I would say, you know, is crucial is starting with a project plan, right?

Jeff Owens (23m 52s):
Working with the auditor to say, when are you coming out? What are you going to need in advance of you coming out and following the timeline exactly to completion I think is critical. And just having everybody be in the loop. You know, sometimes I see that the controller may have the primary point of contact with the auditor. I would say, if you're listening to this podcast and you're the CEO, you want to have weekly check-in meetings with the auditor and with the controller and the CFO so that you understand where things are so that you're not surprised when you know, you get to that to the end of that project plan and things are off track.

Tom Bronson (24m 30s):
I think that's brilliant advice. And it's sort of the same thing as I'm listening to you, describe this. It's really the same thing that we tell our clients regarding exit strategy. It goes so much better. If you have a plan and a strategy in place and you follow that plan and the strategy that will keep things on track and moving at the pace that it needs to. So, so there's great similarities between doing an audit and preparing a business for exit. And by the way, if you do the audit, then it's a very high, higher likelihood that your financials are in order to be able to transition your business on your terms. So we're talking with Jeff Owens, let's take a quick break.

Tom Bronson (25m 10s):
We'll be back in 30

Announcer (25m 13s):
Like it of not, eventually you'll have to come to a point when it's time for your business to transition. Will you be ready?Will you be able to get the maximum value for your business? Brought to you by mastery partners, masterYclass is a 12 month program designed specifically for business owners. We meet once a month as a group to work through our transition readiness assessment, expand your business. Toolbox through leadership presentations have live interaction with other business owners. This program

determines vulnerabilities and your business will affect business value in doing built-in to transition in the future. Whether that transition is in two or 15 years, what you do now has long-term effects on the future value of your business.

Announcer (26m 0s):
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Tom Bronson (26m 21s):
We're back with Jeff Owens audit partner at Armanino in Texas, and we're talking all things audit. So Jeff, in many business transactions, these days, buyers are talking more and more about a quality of earnings report or QOE. So help me understand the difference between an audit and a Q O E.

Jeff Owens (26m 45s):
So Tom, this is a great question. I get this all the time. Why do I need to pay for QOE when I've already had an audit? And I think it's, it's pretty simple. Maybe I can help bring some light to this. So an audit is a lot more broad in scope than a QOE and audit is going to be an audit of your financial statements, right? So what we were talking about earlier, your balance sheet, your P and L your statement of cash flows, and then all the footnotes in those financial statements. That's what we audit, which is typically done as of your fiscal year end, right? And so where we're really looking at our, all the revenues and all the expenses are all the assets and liabilities of this organization properly captured within these financial statements, right?

Jeff Owens (27m 36s):
The difference with a QOE report is it's much more laser focused on a particular area, right? So it's called a quality of earnings report. It doesn't necessarily have to follow your fiscal year end. In fact, I see most of you would be reports that don't necessarily line up with the fiscal year end. A buyer may be really concerned with the revenue transactions on a monthly basis or expense transactions on a monthly basis that may not coincide

with your fiscal year end. And so that's one of the big differences there. It's typically at a point in time, again, not related to the fiscal year end, but is, is based on a 12 month or a trailing 12 month period.

Jeff Owens (28m 19s):
Right? And so it's mainly concerned with the revenues and the expenses of the organization, but what's really cool about QOE is you can tailor it, right? So you can maybe parse out some of the expenses, some of the revenues that may not be of particular interest to the buyer, whereas an audit, if it's a revenue of the company and an expense of the company during that period, it's in there, and there's not a whole lot, you can do. So a good example of that Tom may be with, with looking at 2020, right? And all the effects of COVID that could have ravaged the business in many ways, it could have been very positive for a company, depending on the industry they're in, could have been very negative for them as well.

Jeff Owens (29m 1s):
And so a buyer may want to pull out those anomalies in that queue of the report and call those something different so that they can present the buyer with some specific information, whereas an audit, I would say, sorry, those expenses or those revenues, they were part of 20, 20. I can't really pull those out. Right. And GAAP really. Doesn't like for us to start monkeying with the footnotes and calling things, non-recurring expenses in the footnotes, because, you know, we want to make sure that we're consistent year over year, and we don't want to give any sort of, we don't want to misconstrue the information to the reader of those financials. So a QME report, a due diligence is very different than an audit.

Jeff Owens (29m 43s):
It's much more laser-focused. It can also focus on the quality of the company's customers, right? Their ability and timeliness, the pay, the AR balances. It can look at a proof of cash. It can go into a lot more detail about, you know, those historical capital expenditures and, and particular expense categories than an audit might. So it, again, it can be more tailored, specific to the user's needs. Whereas an audit is mainly put out

there from a broad perspective to let anybody who might be using those financial statements, have a broad view of the company.

Tom Bronson (30m 18s):
So to simplify it for my tiny little pea brain that I have. So an audit really is applying the business financials against a set of rules, the GAAP rules, the generally accepted accounting principles to make sure that everything is in line with that. But a QOE can maybe just looking at the rules that the company is looking for, does that simplify it? Does that make sense?

Jeff Owens (30m 46s):
Yeah, that's exactly right. Tom and the QOE is typically done upon a transaction. There's usually a need for it. It's not done on a recurring basis where audits typically are done on a recurring basis. Right. You wouldn't necessarily want to do an audit one year and then wait a couple of years and do it again because that just complicates your life. And so I think there's some value in doing an audit in the sense that it creates that kind of culture of, you know, financial accountability that we talked about earlier. Whereas at QOE, it doesn't really do that. It's, it's mainly focused on, you know, a one-time. So

Tom Bronson (31m 22s):
Is there a, you've really done a good job kind of explaining the difference in the scope of these two things, but is there a difference in, and the pricing of these things? I know you couldn't just quote me a promise as a cost for an audit, right? It depends. I totally get that, but our QOE and audits approximately the same cost.

Jeff Owens (31m 43s):
So for some organizations, I think they could be approximately the same cost on, you know, if you're a smaller mid-market company that has relatively low audit fees because the business may be rather simple then. Yeah. I think they could be approximately the same price, but if you're a large organization with multinational operations and you know, you've got, you know, a high volume of transactions, I think that audit is going to be, you know, on the high end and the Q of E may be more laser-focused and they may be able to get in and get out a lot quicker. Okay.

Tom Bronson (32m 20s):
All right. That makes a lot of sense. Look, if a company is considering a transaction in the next four to five years, how soon before that transaction, should they obtain an audit?

Jeff Owens (32m 31s):
I would suggest that you could sit down with an audit firm in the first couple of years of you thinking about doing an audit and really start getting some of the kinks worked out in the right, sitting down with that auditor and understanding, Hey, is there, is there any internal control issues that I might have here that I'd want to address before engaging you to come in and do the audit? Do, can you help me come in and maybe clean up my overall system so that when you start the audit, there's not a whole lot of issues. We do that all the time. That's called audit prep work, right? Where we come in there ahead of the audit getting started and really just making sure that when we hit the ground, we're going to hit the ground running. Now to that point, let's say maybe you don't have the ability to do that.

Jeff Owens (33m 12s):
Maybe a transaction's coming down the pike a lot sooner. What I would say is you'd want to start the process as quickly as possible. And here's why Tom, because if you start an audit and say, we go through in year one, you've got a transaction come in a couple of years down the road. One of the things the auditor is required to do is to issue. What's called a management letter. And sometimes in a management letter, we have to disclose significant deficiencies or material weaknesses in that internal control environment. And unfortunately, if somebody comes along knocking on your door and says, Hey, did you get a management letter? You can't really say, no. You got to provide them that management letter because there's really some great, valuable information to a potential buyer that they may want to know about.

Jeff Owens (33m 59s):
So if I come in and do your audit, and I say, there's no internal controls, there's material weaknesses all over the place. That's going to raise some red flags. And we all know

what red flags do, Tom, in a transaction. They de-value the company. And we're here talking about maximizing the value of a company. So we don't want to do that. So we want to start an audit early enough in the process so that any of those deficiencies and your internal control environment are well behind us at the time when the transaction is going down, you want to show that buyer that you're able to get through an audit without, you know, with minimal disruption, without any material, weaknesses or significant deficiencies. You want to show them that audit is smooth and quick, and that's going to minimize those red flags.

Tom Bronson (34m 45s):
I love that. I will tell you that, that I have spent many days, many hours arguing with auditors over things that I knew were coming in a management letter so that we could figure out how to mitigate those things and, and put better systems in place. And so that is solid advice to be able to get rid of those, because yes, if you've had an audit, you're going to have a management letter folks. And you're when that's asked for and due diligence, you're going to have to produce that. And so, so it's better to get those perhaps a little bit early than, than waiting till later. But let me ask, you will obtaining an audit increase the multiple used in the value of my company.

Jeff Owens (35m 28s):
So that is a great question. And that's kind of my Holy grail that I've been searching for over the years, Tom, because if I had that information, I feel like I could, I could, I could, business development would be easy for me. Right. But it's unfortunately something that we don't have data on. And I don't, it may exist somewhere. I just haven't been able to figure how to cultivate it and utilize it. But I do know I've networked with a lot of investment bankers, a lot of transaction MNA guys over the years. And one of the things I hear all the time is that having an audit sure makes the deal go through a lot easier than not having an audit. And we talked about maximizing value.

Jeff Owens (36m 10s):
If there's not an audit, there's just a ton of questions. So I started getting asked, so utilizing a reputable firm who that buyer would know, I think gives a lot of credence and

gives, gives a lot of warm and fuzzies, a lot of comfort to that buyer to go ahead and pull the trigger and make that investment decision.

Tom Bronson (36m 29s):
Well, so speaking of which, how do you go about chasing down? There's lots and lots of CPA firms out there, right? I mean, they're, they're small ones. They're kind of the large regional ones. And then they're the big ones, I guess there used to be the big eight or the big six or the big 12 or whatever it is. I don't even know what it is anymore, but, but how do you go about chasing the right audit firm and what key characteristics of an audit firm? What I need to consider when I'm looking for a partnership, because that's, to me what I'd be looking for in an auditor.

Jeff Owens (37m 1s):
So one of the words you just used in that question is key. And that's the partnership, Tom, it's not about finding an audit partner, right? It's about finding a business partner. I tell my clients all the time you work with me and two years down the road, you introduce me as your audit partner to somebody, or you just think of me as your audit partner, then you probably need to go ahead and terminate the relationship, go ahead and fire me because you're not getting the value that you're paying, right? I don't want to be your audit partner because when you think of me as your audit partner, you put me in a box and you only call me when you have an audit. But when you think of me as your trusted business advisor and your business partner, any issues that arise, you feel comfortable calling me, right.

Jeff Owens (37m 44s):
You know that I've got clients that look like you and, you know, have had transactions similar to you. So you want to find somebody who is more interested in your business than they are that audit fee, right. That's critical. Right. And so choosing the right firm, I think starts with that partnership starts with that sort of relationship and audit is not a commodity. Some firms view it as a commodity, but we know it's not a commodity. And then I would find a firm that has a robust, detailed knowledge of your industry. There's a lot of firms out there that are Jack of all trades.

Jeff Owens (38m 24s):
I, you know, I'll level with you, Tom and your listeners. I used to be a Jack of all trades audit. I used to audit industries. I'd say there's not an audit that I can't do. And certainly I could do it. Right. Certainly could get through it, but was I the best partner for those clients at that time? And I would argue, probably not since then I've changed my business. And that's what we're focused on here at Armanino is really making sure that we, we say the riches are in the niches, right? That's where life becomes easy for us as auditors because we know where that risk is. And we can dive right down into that risk. And what that really does is it minimizes the, the accounting risk and the audit risk to the owners of that company and to the buyers of that company.

Jeff Owens (39m 8s):
Because when you have a partner who knows your business and knows your industry, as well as you do, that's when that audit can be done very efficiently and very effectively in order to make sure that all those risks are mitigated. So finding somebody that understands your business and somebody that's going to really partner with you to be that business advisor, I think is the key there.

Tom Bronson (39m 31s):
That is so important, not only with your, your auditing firm, but with your CPA in general, with your attorney, with your financial planner, we want to surround the business owner with, with a team that, that they know and trust and get involved in the business. I get so excited when I'm talking with a CPA of the CPA of one of our clients, and they know so much about this client. They understand how they operate, they know about their processes and systems. And that's what you get with, with Jeff Owens over at Armanino. And I love that, that you guys really partner that's, that's the kind of thing we're looking for when we recommend folks to our clients.

Tom Bronson (40m 15s):
So, one last business question, of course, as you know, Jeff, this podcast is all about maximizing business value. What's the one most important thing you recommend business owners do to build value in their business?

Jeff Owens (40m 32s):
Fantastic question, Tom, I would say invest early on in that accounting function. Right. I see a lot of times for our organizations tend to view the accounting function as something that they'll work on later on, let me get my business up and running and then I'll figure that out later. And then they get busy, they get more revenue coming in and they're, you know, busier than a one-armed paper hanger, right? And they don't have the time and energy to invest in that accounting function. And then they come to a transaction and they wish that they would have started very early on with that. So I would say finding that right controller, that accounting manager then move into a controller and then ultimately a CFO, a true CFO position, I think is critical to making sure that you can maximize that value longterm in the business.

Tom Bronson (41m 26s):
I love that. That is, that is such a great answer. And by the way, I know you mentioned QuickBooks earlier. There's lots of different products that are out there. It's to me, it's all about having somebody who really understands how to use whatever tool it is, that's there. And if you I've my last company that I sold a solid middle market company, we sold it was using QuickBooks because we had people that knew how to make it sing. We had people who were trained properly to use it. We could operate all of our divisions on it. We understood it. Of course we were not using the, you know, the $200 off the shelf version. You know, we're using the big enterprise version, but, but to me, it's not necessarily about what you use, but making sure that your people are properly trained.

Tom Bronson (42m 15s):
So investing in your financial systems, I love that. That is great advice for any business owner, but I'm not going to let you off the hook. We always have our bonus question. You know, our long time listeners know that when we get to this point, I'm always going to ask the hard question. And that is Jeff. What personality trait has gotten you into the most trouble throughout the years?

Jeff Owens (42m 38s):
Hm that's a, that's funny Tom. Cause I was actually joking with one of my partners about that today. So we like to have a little fun. We, we take what we do very seriously at

Armanino, but we never take ourselves seriously. Right. And so we give each other a nickname at the firm and I just recently found out that my nickname or one of the nicknames, I guess I go by here is Jeffrey Poppins because I have this tendency to be always eternally positive. And so, you know, that can sometimes come to bite us in the rear, right. When we're always thinking positive positively, but we don't have that kind of angel on our, on our shoulders telling us, Hey, what about this?

Jeff Owens (43m 24s):
What about that? And that manifests itself, actually. So we're now in March of 2021, as we're recording this podcast. And I've been saying since March of 2020, that COVID is not going to last that long. We'll be back in the office in a week or two. And I've continued to double down on that, Tom, because I've just figured eventually I'll be right. Right. And so, but having people come around me that can help me see a different perspective. You know, not saying I want to surround myself with negative people. It's not what I mean, but just surrounding people that can help me see a different or unique perspective, I think has been critical to making sure that that doesn't get the bedroom.

Jeff Owens (44m 4s):
I can see a time in our future that you will regret answering this question that way. And I'm sure there are way worse things that can get you into trouble than being a internally optimistic. I love that a great values, but I will never forget the name. How can our viewers and listeners get in touch with you? Well, I think the easiest way is a, is LinkedIn. If you're on LinkedIn, you can find me at Jeff M. Owens, but on our website to armaninollp.com, you'll find me there on our partner page.

Jeff Owens (44m 46s):
And you can, you can search for me and, and get, get in touch with me directly through our website as well.

Tom Bronson (44m 52s):
Thank you Jeff, for being our guest and really educating our audience about audits and really putting in a language that everybody can understand. Thank you for being with us.

Jeff Owens (45m 3s):
Oh, I'm happy to be here, Tom. I really appreciate the opportunity and hope it added value to your listeners and wished them all the best as they go through their transaction.

Tom Bronson (45m 13s):
I have, I have taken pages of notes myself, so I can't imagine how it wouldn't be helpful to all of our audience. You can find Jeff Owens at Armanino, LLP, a R M a N I N O Nino L L p.com or on LinkedIn, as he mentioned. And of course you can always reach out to me and I'll be happy to make a warm introduction to my good friend, Jeff Owens. This is the maximize business value podcast, where we give practical advice to business owners about how to build long-term sustainable value in their businesses. Be sure to tune in each week and follow us wherever you found this podcast. That way you'll be notified each time a new one comes out each week.

Tom Bronson (45m 57s):
Be sure to comment. We love your comments and you respond. So until next time, I'm Tom Bronson reminding you to focus on your financial systems and get an audit while you maximize business value.

Announcer (46m 16s):
Thank you for tuning into the maximize business value podcast with Tom Bronson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms. Learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y masterypartners.com. Check it out.

Announcer (46m 45s):
<inaudible> that

Tom Bronson (47m 4s):
Was perfect. I wouldn't make any changes on that.