

› Ten Considerations When Selecting an Auditing Firm

Does your summer business checklist look something like this?

- ✓ Clean out and organize files
- ✓ Plan company summer outing
- ✓ Choose a new independent auditing firm

Although not the most appealing task on your "To Do" list, selecting the right auditing firm can be invaluable to your business.

A good auditor serves as a check and balance system for your ideas, suggests recommendations to enhance your operations and control systems, and inspires confidence in your financial results with your financial institution and investors.

Sound like your current relationship? If not, here are 10 important considerations when selecting a new auditing firm.



1 Seek out recommendations from other similarly sized companies. These recommendations will provide you with valuable insights about a firm's reputation and its ability to meet the needs of a company of your size and operational level.

2 Obtain referrals from your financial institution or investors. These professionals provide capital to business leaders like you based on an auditor's report, so it is always a good idea to make sure they are comfortable with the expertise and integrity of your auditing firm.

3 Ask your other trusted business advisors. Most likely your attorney, insurance broker or other professional service provider has established relationships with auditing firms and can provide you with advice on who may be best suited for your business.

4 Select a firm that will invest time in learning your business. A good auditing firm will ask: What keeps you up at night? In order to be highly effective and efficient, your auditors must understand your business. In your proposal responses, pay attention to how much the auditing firms talk about themselves versus how much they talk about your business, needs and issues.

5 Choose a firm that has experience in your industry. Inside knowledge of your industry will give your firm greater insight on how to approach your company's audit. Also, a firm with experience in your industry may provide you with valuable benchmarking information that could help enhance your operational results.

6 Consider the firm's comprehensive resources. The complexity of your business and its evolution over time may require resources over and above an audit. Be sure to inquire about the full scope of solutions offered by your firm, keeping in mind independence obligations.

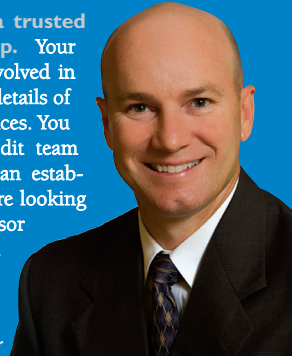
7 Take into account the firm's locations. If your company has offices in other regions or countries, you will want to consider how

these locations will be served. Many firms are members of national and international associations and can help meet your needs through these affiliations.

8 Ask for the firm's most recent peer review report. In general, most firms are required to undergo peer reviews of their auditing practices every three years. The reviews are designed to test a firm's quality control standards and practices.

9 Factor in cost. Ask prospective firms to supply you with an estimate of how long an audit will take and how much it will cost. A word of caution: audits are not commodities. The cost should not be an overriding factor in and of itself; consider the value of the services being delivered.

10 Establish a trusted relationship. Your auditing firm is involved in the most intimate details of your business finances. You must select an audit team with whom you can establish rapport. You are looking for a trusted advisor with whom you can build a long-term relationship.



~Keith Hendrix, CPA, Shareholder

› Being audited by the state? Be sure your use tax is paid!

In this era of deficits and shortfalls, state auditors are becoming more aggressive in their scrutiny of sales and use tax paid by businesses.

» **Use Tax 101** | Use tax is regularly the cause of large tax assessments and is the alter ego of sales tax. Tangible items purchased by consumers are generally subject to sales tax. If sales tax were not charged on the initial sale, use tax would become due in the same amount the sales tax would have been, if the vendor had charged it. A primary difference between use tax and sales tax is that sales tax is paid to the vendor and use tax is generally paid directly to the government.

» **Bargain or Burden** | Many businesses are happy when they avoid sales tax when purchasing items like computers or supplies online, but what they may not know is that a use tax liability is generated as soon as they receive the property. Since taxpayers are often unaware of this tax or not properly self-assessing, states center a great deal of attention on this issue. Their auditors will focus heavily on purchases made from out-of-state vendors and purchases made online.

» **Auditor Scrutiny** | Auditors will dig deeply, examining even the most complicated situations. For instance, purchases of checks by a bank may or may not be subject to tax depending on what the bank does with the checks. If a bank gives them to customers, it creates a use tax. But if the bank sells them to customers with a sales tax charge, use tax is avoided.

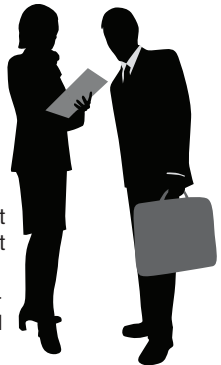
Database subscriptions, software licenses, and software maintenance and support agreements are also items that

auditors will surely review. Beware; states treat these items differently for sales and use tax purposes, so vendors and end users are often confused as to whether sales or use tax is due. For example, remote access to databases (access to a research tool over the Internet, for example) is subject to sales tax in South Carolina but not in North Carolina. These fine gradations in taxability make it difficult for taxpayers to comply, thus attracting the attention of auditors.

Other areas of interest for auditors include supplies, computers and peripherals, equipment, furniture, promotional items, and signage, among other things.

» **Prepare Your Business** | It is important for businesses to have processes in place to properly self assess and pay use tax in order to avoid assessments and penalties. These processes will vary from business to business depending on purchasing volumes, purchasing patterns and staffing.

Payment of current use tax will not exempt your business from audit requirements. However, in our experience, businesses with no use tax payments and no system in place to address this issue are more likely to be targets. Also, keep in mind that your exposure will continue to build as long as a system to calculate and pay any amounts due is not in place. An experienced state and local tax advisor can help your business develop procedures to pay the proper amount of use tax and avoid unwelcome tax assessments.



~Jack Schmoll, CPA, Senior Manager, Elliott Davis, PLLC

Content contributed by the Charlotte office of Elliott Davis, PLLC, an accounting, tax and consulting services firm providing clients the solutions needed to achieve their objectives in 10 offices throughout the Southeast. For more information, contact Dan Warren at 704-808-5210 or visit www.elliottdavis.com.