ZEROED-IN CONSULTING | PP&CO

Your First Audit: From Both Sides of the Table

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Your Speakers

Zeroed-In gets companies audit-ready. PP&Co performs the audit.



Kyle Geers

CEO/Co-Founder, Zeroed-In Consulting

Kyle Geers is a California-licensed CPA and former Grant Thornton leader specializing in complex financial reporting and technical accounting, who has guided 100+ companies through US GAAP and audit challenges.



Joe Kilkenny

Lead Assurance Partner, PP&Co

Joe Kilkenny is a California CPA and Chartered Accountant (ICAEW) with 15+ years of audit experience across multinational groups, PE-backed businesses and venture-backed start-ups. He specializes in international group audits, internal controls and complex technical accounting.

Today's Session

By the end of the hour, you'll learn:

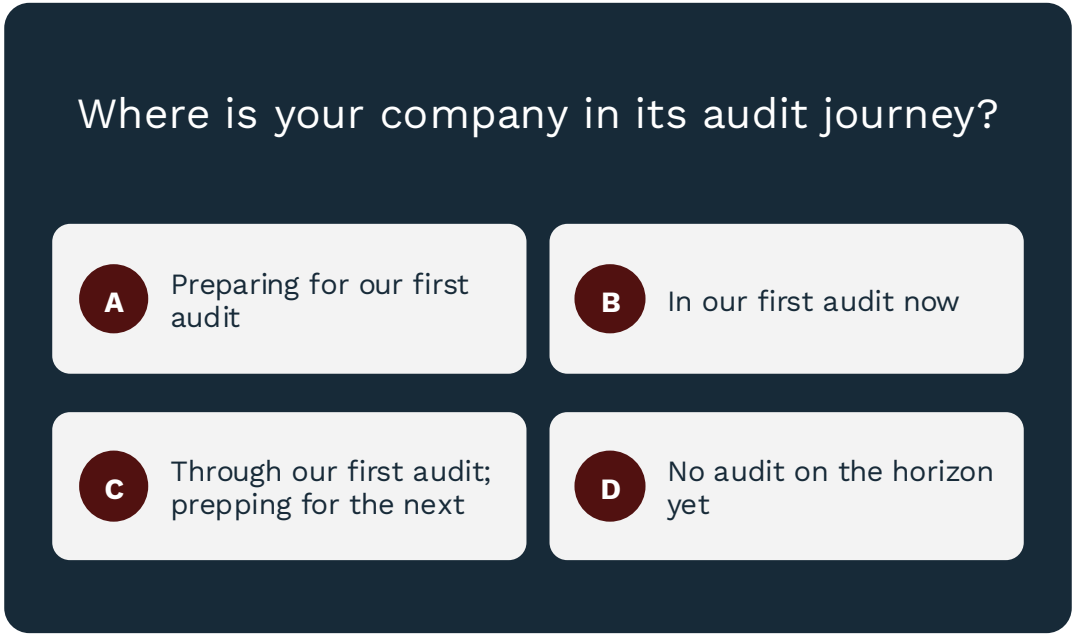
1. **What auditors need**
   Understand what auditors need and look for in a first-year audit.

2. **Common problem areas**
   Identify the most common first-year problem areas and how to fix them before fieldwork.

3. **Interim testing**
   Evaluate whether interim testing makes sense for your company this year-end.

4. **AI in the audit**
   Understand how auditors are using AI today, and what they'll ask if your team uses AI.

Poll #1


Where is your company in its audit journey?
A
Preparing for our first audit
B
In our first audit now
C
Through our first audit; prepping for the next
D
No audit on the horizon yet

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SETTING THE STAGE

Why Your First Audit Is Happening

What Triggers a First Audit

Most first audits start with someone else's requirement

Investors & board

Often required after a priced round.

Lenders

Covenants can require audited financials.

M&A or exit prep

Buyers and their diligence teams expect audited numbers.

IPO track

Audited history becomes part of the path to going public.

Audit vs. Review

What you're actually signing up for

Review

- Limited assurance
- Mainly inquiry and analytical procedures
- Less testing, less documentation, lower cost

Audit

- Reasonable assurance and an audit opinion
- Risk assessment and walkthroughs of key processes
- Testing of balances and transactions

> **Ask first.** Confirm which one the investor, lender or agreement actually requires before you engage.

What Drives a First-Year Audit Fee

The first audit sets the tone, and the fee, for every year after it

1. **How ready the client appears**
   A clean, reviewed set of books changes the effort estimate.

2. **Documentation**
   Is there support for significant transactions and balances?

3. **The opening balance sheet**
   What is on it? Acquisitions, inventory, complex debt/equity adds work.

4. **Timing and covenants**
   What is the deadline, and are there lender covenants?

Readiness and documentation are the factors you control most.

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KEY TOPIC #1

The First-Year Audit From the Auditor's Perspective

What actually happens, and what well-prepared looks like.

What Actually Happens in a First-Year Audit

Three steps come before fieldwork

01

Client acceptance

Independence inquiries and checks, background reviews of key management and ownership, engagement letter and logistics. This can take time.

02

Opening balances

No prior audited balances to rely on, so the auditor has to get comfortable with them.

03

Risk assessment & planning

Materiality, risk assessment and walkthroughs of key processes.

Opening Balances: The Biggest Surprise

No prior audited balances to rely on

The key question

What happened before the period under audit, and how was it accounted for and documented?

What will not work

- "That was before my time."
- "That happened years ago."

The result. Gaps in the history lead to delays and added audit effort.

What "Well-Prepared" Looks Like

The auditor's view, versus what typically shows up

The records

- A trial balance that is final and reviewed
- Reconciliations and supporting schedules available
- Accounting memos for key balances and transactions

The relationship

- An open mind and a desire to work collaboratively
- No surprises: was there a transaction we're not aware of? Talk it through.

We're not looking for gotchas. We're here to help and add value.

Audit Prep From the Company Side

What getting ready looks like before fieldwork

An organized PBC list

Delivered on time, with a reconciled balance sheet behind it.

Memos before fieldwork

Technical memos written before fieldwork starts, not during it.

A repeatable close

A month-end close you can repeat, so the year-end numbers don't move.

Common First-Year Pitfalls

1. **Cash-to-accrual and cutoff**
   Converting from cash basis, and getting period cutoff right.

2. **Revenue recognition (ASC 606)**
   SaaS implementation fees, multi-year contracts, usage-based pricing.

3. **Equity**
   SAFEs, convertible notes, warrants, preferred stock, and a cap table that doesn't tie to the GL.

4. **Stock-based compensation (ASC 718)**
   Missing valuations (409A) or grant support.

5. **Capitalized software, leases, accruals**
   Including lease accounting under ASC 842.

6. **Missing documentation**
   Contracts and support for key transactions.

Bring Your Auditor In Early

The ideal first-year approach

01

Align on judgment areas

Agree early on the areas that need judgment, before positions harden.

02

Time the memos

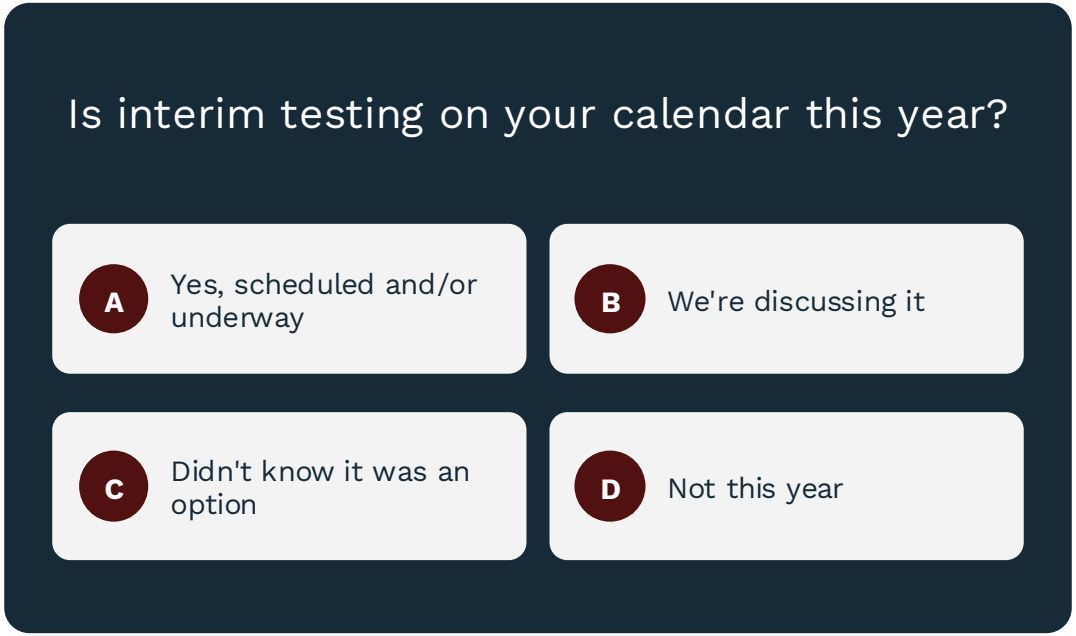
Plan when technical memos land, so they are reviewed before fieldwork.

03

No 11th-hour rework

Surprises get resolved while there is still time to fix them.

Poll #2


Is interim testing on your calendar this year?
A
Yes, scheduled and/or underway
B
We're discussing it
C
Didn't know it was an option
D
Not this year

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KEY TOPIC #2

Timing & Interim Testing

Does it make sense this year?

The Calendar-Year Audit Timeline

For a December year-end, the work starts now



Engagement letter

Client acceptance and planning

Interim work

Testing through the interim date

Year-end

Close and reconcile the year

Year-end fieldwork

Final testing and the report

What Can Be Tested at Interim

And what has to wait for year-end

Interim

- Process/control walkthroughs
- Revenue and expense testing through Sept/Oct
- Opening balances

Year-end

- Year-end balances and cutoff
- Rollforward activity from the interim date to year-end

The benefit. Fewer surprises, smoother year-end fieldwork, and issues found while there's still time to fix them.

Is Interim Right for You?

Interim testing only helps if the books are ready for it

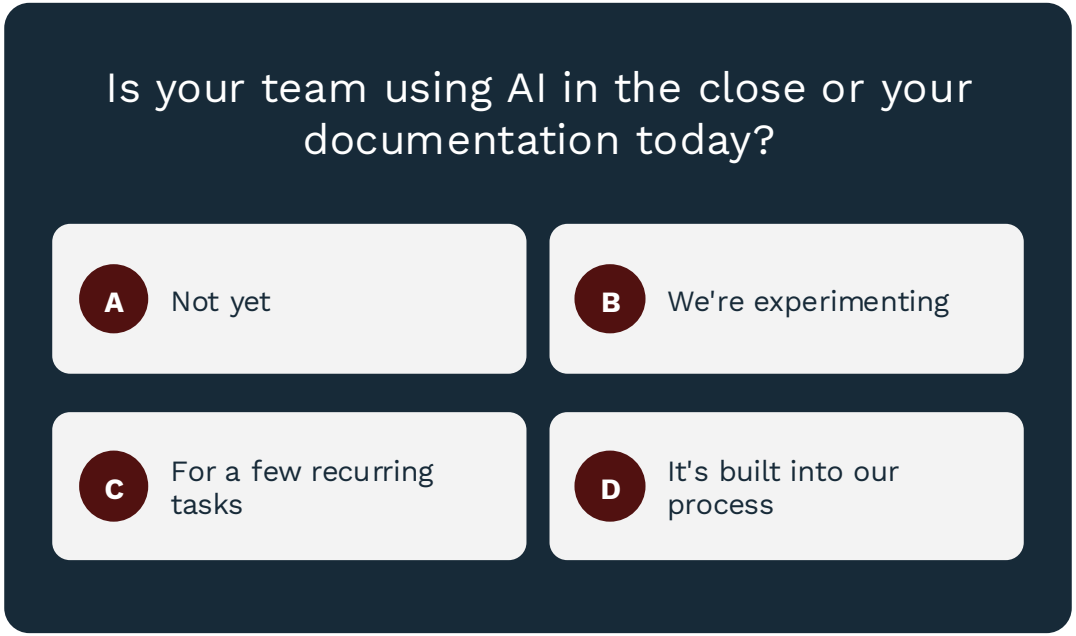
Ready for interim

- Books closed and reconciled through the interim date
- Key memos drafted

Not worth it yet

- Books not in shape yet
- Very small or simple entities

Poll #3


Is your team using AI in the close or your documentation today?
A
Not yet
B
We're experimenting
C
For a few recurring tasks
D
It's built into our process

How Auditors Are Using AI Today

Full-population testing

Analytics such as journal entry testing, instead of traditional sampling.

Document review

Contract and document review, matching support to transactions.

What stays human

Judgment, conclusions and sign-off.

If Your Team Uses AI, Expect These Questions

Auditing AI and agents in the close or AP process

1. **Who reviews the AI output?**
   And where is that review evidenced?

2. **What controls cover the tools?**
   Access, change management and data inputs.

3. **Can you reproduce the number?**
   Can the client explain and reproduce how a number was produced?

Human in the loop, deterministic checks and documented review make AI-assisted work auditable.

Top Takeaways



KYLE'S TAKEAWAY

Prioritization

You're going to get a LOT of audit requests. Work in tandem with your auditor on what's most critical to provide early on.



JOE'S TAKEAWAY

Communication

Communication and open discussion with your auditor, from acceptance through fieldwork.

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Q & A

Continue the Conversation

Zeroed-In Consulting
Audit readiness assessment and audit prep support

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