



## Oversight Benefits for Small Businesses

By the AICPA Business, Industry & Government Team

A rapidly evolving regulatory environment and rising expectations of stakeholders have caused many entities to reassess their internal control and risk management practices. While large public companies have been most directly and visibly affected by this trend, smaller public and private companies have also experienced the impact of the changing compliance culture and have implemented overall governance best practices (i.e., establishment of an audit committee).

An audit committee assists the board of directors in overseeing the:

- Integrity of the company's financial statements
- Internal control over the financial reporting process
- Independent and internal audit performance
- Compliance with legal and regulatory requirements

For private companies, it's not required ... however, it's a sound idea to have this type of oversight.

People who make up this committee generally can have backgrounds in finance and accounting as well as other specific areas that are needed by the company. It's also good to have people who are willing to speak their mind, and while they may disagree, they all have a common goal of the company's success.

A well-designed and properly functioning governance system can play a key role in achieving the goals of any size organization. Benefits can include:

- *Better Financial Results*
  - Effective governance practices lead to a more effective internal control system that can help ensure more accurate financial information and reduce the likelihood of fraud.
  - Sound governance practices can help reduce the risks of the organization, resulting in lower insurance, legal and borrowing costs.
  - Prudent governance can help create conditions that make the organization a more desirable business partner, leading to expanded opportunities for the business.
- *Improved Access to Capital*
  - Just as investors and lenders have come to expect vigorous governance practices in public companies of all sizes, they are also beginning to establish similar expectations for private companies.
  - Governance and internal control practices similar to those required of public companies can make it easier for private companies of all sizes to consider seeking capital in public markets.
- *Stronger Relationship With External Stakeholders*
  - Strong governance is consistent with a general societal trend toward enhanced independent oversight of business organizations.
  - Strong governance can also lead to increased credibility with IRS, FDA, FTC, and other regulators.

**For more information please access the AICPA Audit Committee Effectiveness Center at <http://www.aicpa.org/audcommctr/>**

