



Eight Tips to Help you Prepare for your Financial Statement Audit

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Through preparation and communication, you can make your yearly audit be a painless process that does what it's intended to do: help ensure your financial statements are accurate and your financial reporting systems are sound. Below are a few tips to help get you started:

1. Reconcile all significant accounts including but not limited to cash, accounts receivable, inventory, accounts payable, and accrued expenses. This is by far the most crucial step that you can take to prepare for your financial statement audit. Most adjustments that are discovered during audit fieldwork relate to reconciliations not being prepared. Additionally, it is imperative to ensure you have support for any significant reconciling items.
2. Reconcile changes in equity accounts including new equity agreements and/or amendments to existing agreements. This reconciliation will ensure that all changes within the equity accounts during the fiscal year are properly accounted for and presented appropriately within the financial statements.
3. Gather new agreements and/or amendments to existing agreements entered into during the year including operating agreements, lease agreements, debt agreements, etc. These agreements will be reviewed by your auditor during fieldwork audit procedures and will be utilized to prepare the footnotes to your financial statements.
4. Update PP&E schedules – Even if you accountant calculates your depreciation, compiling a list of assets you've purchased and sold over the course of the year will expedite the process. Be sure your PP&E summary includes dates, amounts, and detailed descriptions of all assets purchased and sold during the fiscal year.
5. Confirm your capitalization policy is being followed and is in compliance with the new IRS regulations.
6. Gather and compile a detail of all related party transactions including sales, purchase, leases, etc. These transactions will be reviewed by your auditor during fieldwork audit procedures and will be utilized to prepare any necessary footnotes within your financial statements.
7. Identify and communicate to the audit team all significant changes in business operations and/or changes in accounting methodology from the previous fiscal year audit (if applicable). If you are able to proactively address any such changes ahead of the time, it will help ensure the audit go smoothly. Likewise, if during the year you enter into a major transaction (purchase a business, obtain new debt, sign a new lease, change accounting principle, adopt new accounting pronouncements, etc.) communicate such changes to your auditor upfront; proactively working through a transaction after it occurs allows for monthly reporting to be correct.
8. Prepare all of the items on the auditor's preparation checklist prior to the beginning of fieldwork. The following is a general list of items most frequently needed by auditors in connection with the audit of financial statements for small to medium sized companies. The information should be submitted electronically, in Excel format, if possible. Your auditor may also request other items, depending on the industry in which you operate.

Audit Preparation Checklist

- General ledger (also called a working trial balance) covering the entire fiscal year.
- Internal financial statements.
- Articles of Incorporation and Bylaws (or other organization documentation).
- Equity certificates.
- Employee handbook.
- Accounting Policies and Procedures manual.
- Organization charts and systems documentation (memos detailing flow of transactions within the company).
- Bank notes, security agreements, and lease agreements.
- Minutes of meetings of the Board of Directors and any other oversight committees.
- Fiscal year budget.
- Your auditors will need access to all paid bills and checks received during the year.
- Reconciliation and schedules supporting all asset, liability, and equity accounts.

The following are the most common items that auditors will ask for:

Cash

- Year-end bank reconciliation and bank statements. Bank reconciliation should have a complete list of outstanding checks with check number, date, and amount. Detail of deposits in transit should also be listed.
- Your auditor will provide standard forms and ask you to prepare confirmations, which the auditors will mail to the bank.
- Your auditor will ask you to provide the monthly bank statements received from the bank for the fiscal year and the first month following the end of the fiscal year.

Accounts Receivable

- Detailed aged listing of all accounts receivable balances by invoice as of the end of the year (reconciled to the G/L). Your auditors will usually select customers and ask you to prepare confirmations, which the auditors will mail to the customer.
- Your auditor will likely ask you to prepare an analysis of the collectability of aged account balances.

Inventory

- Detailed inventory reports as of the end of the year (reconciled to the general ledger), including overhead calculation, if applicable.
- Your auditors will typically observe your year-end inventory count to verify the existence of inventory at year-end and for any obsolescence issues.

Property And Equipment

- Fixed asset roll-forward schedule showing beginning balance in each asset class plus additions, less disposals equals ending balance reconciled to the general ledger.
- Detail of fixed asset additions and disposals during the year.
- Book depreciation schedule by asset including useful lives, depreciation method, etc.

Accounts Payable

- Accounts payable aged trial balance as of the end of the fiscal year.
- Check registers for the period between year-end and the date of fieldwork.

Long-Term Debt

- Debt roll-forward schedule showing beginning balance in each note plus borrowings, less repayments equals ending note balance reconciled to the general ledger.
- Schedule of future maturities of long-term debt for the next five years reconciled to the terms of debt agreements.
- Compliance schedules for covenants.

Income/Expense

- Monthly revenue and expense analysis and gross profit trend analysis.
- Variance analysis spreadsheet for general and administrative expenses.
- Schedule of rent expense reconciled to the terms of the lease agreements and schedule of future minimum lease payments over the next five years.
- Access to all manual journal entries made during the year.
- Details of repairs and maintenance account.
- Detail of legal fees paid, with the name and address of all attorneys used throughout the year.

Financial statement audits can be a daunting and stressful process, however, with an adequate amount of preparation and communication between the Company and the auditor, the process can be relatively painless for all involved. Being properly prepared for a financial statement audit can save you time and money in the long run.

To learn more about preparing for your financial statement audit, contact a Boulay advisor at 952-893-9320 or learnmore@BoulayGroup.com

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