Audit Insights

Helping You Succeed

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4 ways to prepare for next year's audit

Every fall, CPAs are busy preparing for audit season, which generally runs from January to April each year. This includes meeting with clients, assigning staff and scheduling fieldwork.

Likewise, organizations with calendar year ends should prepare for audit fieldwork. A little prep work this fall can help facilitate the process, minimize adjustments and surprises, and add more value to the audit process. Here are four ways to gear up for your audit.

1. Disclose operational changes

Internal and external changes may bring opportunities and risks that could affect your auditor's procedures. So it's important to identify all recent developments of importance and discuss them with your auditor before fieldwork begins.

Examples of noteworthy internal events or transactions include:

- Major asset acquisitions or divestitures,
- New or expanded product lines,
- Relocation or a new lease for commercial space,
- Application for new debt (or refinanced debt),
- Addition (or retirement) of owners and other key employees,
- Losses and business interruptions from natural disasters, fraud or cyberattacks,
- Acquisition (or loss) of a key customer or supplier, and
- A change in accounting software.

Your auditor will also want to hear about *external* changes, such as pending lawsuits and tax audits, new sources of competition, and new regulations. When in doubt, tell your auditor.

2. Ask questions about gray areas

All transactions for the year should be entered into your accounting system *before* the start of fieldwork. But your accounting personnel might not know exactly how to report certain items. There have been several major changes to the federal tax code and U.S. Generally Accepted Accounting Principles (GAAP) in recent years.

If your staff is uncertain how to account for a particular transaction or when a new rule goes into effect, it's a good idea to ask for help *before* closing the books at year end. Doing so will help minimize inquiries and the need to make adjusting journal entries during fieldwork.

3. Review last year's audit

Start by looking at last year's adjusting journal entries and management points. You should have taken steps to correct whatever problems were found last year. For example, if your controller forgot to record accrued payroll and vacation last year, double-check that accruals have been done for 2023. Likewise, if your auditor suggested that you needed stronger internal controls over purchasing, you could make last-minute changes before year end, such as segregating ordering and vendor payment duties between two employees or cross-checking vendor vs. employee addresses.

You should also anticipate requests for documentation and inquiries from auditors. Chances are you'll create many of these schedules — such as accounts receivable aging reports and fixed asset listings — when you reconcile your general ledger. Consider compiling an audit binder before the start of fieldwork to expedite the process. It also helps to designate an internal liaison to field the audit team's inquiries. Often, this is the company's CFO or controller, but it can be anyone who's knowledgeable about the company's operations and accounting systems.

In addition, each account balance should have a schedule that supports its year-end balance. Amounts reported on these schedules should match the financial statements. Be ready to explain and defend any estimates that underlie account balances, such as allowances for uncollectible accounts, warranty reserves or percentage of completion.

4. Adopt a positive frame of mind

Some in-house accounting personnel see audit fieldwork as a painstaking disruption to their daily operations. They may begrudge having to explain their business operations and accounting procedures to outsiders who will highlight mistakes and weaknesses in financial reporting.

Although no one likes to be questioned or critiqued, audits shouldn't be adversarial. Your external auditor is a resource that can provide assurance about your financial reporting to lenders and investors, offer fresh insights and accounting expertise, and recommend ways to strengthen internal controls and minimize risks. Financial statement audits should be seen as a learning opportunity and an investment in your organization's future.

Preparing for your auditor's arrival not only facilitates the process and promotes timeliness, but also engenders a partnership between in-house and external accounting resources. Contact us for more information.