

Audit Coming? How to Prepare



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If your organization is facing an audit, it's important to be well prepared before the auditors arrive.

Dedicating the necessary time and resources to prepare your company for the audit is a good investment. A financial audit is an important process for communicating a company's credibility.

The list is lengthy and diverse. First, designate a reliable individual within your organization to take responsibility for the audit process and financial information. That person, perhaps in conjunction with a representative of the audit committee, finance committee or board of directors, should contact the audit firm well in advance of the audit commencement date to establish an understanding of the responsibilities of both management and auditor.

Review the engagement letter carefully. Ask questions about any aspects you do not understand to gain a clear understanding of how the audit firm intends to administer the engagement.

One of your most important steps in preparing for a successful audit is documenting internal systems and controls. Don't minimize the value of this process.

A clearly documented system will afford auditors an efficient way to learn about your organization. And updating documentation will help your organization assess how transactions are processed and controlled.

Begin documenting systems by considering the transactions your company processes. Sales, accounts receivable (including write-offs), cash receipts, purchasing, receiving, accounts payable, contracts and payroll are typical systems requiring documentation.

Reference each step of the process in a concise manner. For ease of future updates, use titles rather than the names of the individuals in the positions. An up-to-date policies and procedures manual will simplify this process.

The ultimate in audit readiness is a well-documented system of internal controls that has been tested for effectiveness. While this level of preparedness may be beyond the current scope of many organizations, it remains a principal objective of an appropriately functioning system of financial reporting.

When properly designed, a system of internal control can prevent errors and provide the framework for discovering errors in a timely fashion.

Auditors will request copies of agreements documenting a company's operations and obligations. Oddly enough, many companies fail to retain copies of current loan and lease agreements, contracts, purchase and sale commitment

documents, minutes of board meetings and correspondence relative to pending or threatened litigation.

These items are necessary to support the audited financial statement, related footnote disclosures and required auditing procedures. The auditor will request them for both the period under audit and the period subsequent to the balance sheet.

Accounting records should be reconciled and analyzed. Determining that account balances are properly stated is the first step, followed by a critical analysis of what is included in the balance.

For example, a list of postings to a general ledger account is usually not adequate. The ending balance in the general ledger must be reconciled to the schedules reflecting management's assertions.

Auditors prepare schedules to facilitate the completion of audit procedures. Whenever possible, your organization should prepare schedules in the form requested. This improves the efficiency and often the effectiveness of the audit and may reduce audit fees.

Whether a consultant or your company's finance department handles preparation, the final responsibility for financial reporting remains with management. Management must prepare the entire company for audit, not just the financial reports.

The pre-audit phase is a logical time to review risks and communicate management philosophy about the importance of internal controls. This "tone at the top" often has a dramatic effect on an organization's ability to prepare for an audit. Management must discuss with employees the importance of the audit and what they can expect.

Auditors are required to assess the risk of fraud. They will speak with employees involved with different aspects of the company. Management should ask employees to be honest and straightforward in their communication with the auditors.

Employees will be asked to provide a wide variety of company background information, such as organization charts, job descriptions, employee names, telephone numbers and e-mail addresses. They should begin preparing well in advance of the audit.

The opening phase of an audit is the ideal time to clarify and understand the terminology used by auditors as well as the expectations and anticipated timelines and outcomes. Arranging for adequate workspace and access to personnel, providing accurate financial information, assessing risks and demonstrating commitment to the project are all pieces of the preparation puzzle.