

Save Yourself a Headache

Audit Prep To-Do List

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When you're running a business or organization, the last thing you want is extra work that takes you away from focusing on what matters. Being prepared for your audit can save you a major headache. It's as easy as checking off the steps on this to-do list to ensure everything goes as smoothly as possible for you, the company, employees and your auditors.

Meet with your CPA

He or she will discuss:

- What is needed from you
- The audit process
- Timeframes

An audit takes time. It's going to span several months, so you want to get an understanding of the timeline such as when your auditors are going to be doing their work and deadlines for submission of client documents and reconciliations.

Review your systems and key controls

Your auditors will first need to get an understanding of these. To prepare for this, you should:

- Identify what your systems and key controls are
- Have good documentation outlining them
- Start with sales, accounts receivable and cash receipts
- Look at your accounts payable and cash disbursements processes
- Document processes and key controls for inventory in a separate memo or flow chart
- Review your payroll process

- Go over your process for financial reporting

Trial balance and reconciliations

You want to know what actually reconciled to that ending balance at the end of the month. Make sure you have reconciliations prepared for each month during the year.

- Go down your trial balance
- Verify that all accounts are reconciled
- Have reconciliations that explain what is making up your general ledger balance sheet accounts

If you have inventory, you need to:

- Conduct a physical inventory count of 100% of your inventory items on hand as of the last day of the year
- Coordinate the count internally
- Who's going to do it?
- When is it going to happen?

Expect your auditors to be on the premises during the physical inventory to make sure what's on your books is accurate to what's actually sitting out in your warehouse.

As you're reconciling fixed assets for the year, you want to have:

- A good listing of all additions and disposals – dates of purchase, dates placed in service, costs, etc.
- Your gross proceeds from the sale of any fixed assets
- Updated depreciation schedules that reflect all additions and disposals for the year

Most audits are performed in accordance with GAAP. This is the accounting method you want to be using. However, a lot of companies keep their books on a tax basis, so you will have some accounting conversion and clean up if you need to go from a tax to a GAAP basis.

Permanent File Documents

Your auditors are going to want copies of all permanent and legal type contracts, including:

- Articles of incorporation
- Operating agreements
- Loan agreements
- Notes receivable/payable
- Major contracts for purchase commitments
- Bonus agreements
- Employment agreements
- Stock option agreements with employees

A couple of reminders ...

First audit. If this is your first time being audited and you will be having an audit of your balance sheet, income statement and cash flow statement, keep in mind that you will be audited for the balances of the current year along with the ending balances of your previous year. However, with an audit of only the balance sheet, you only have to prepare for an audit of the current year ending balances.

Time. It's a misconception that an audit can be done within a week or two. To properly perform an audit, work will need to be performed before your year-end and after your year-end has been closed out. An audit may potentially last anywhere from 4 to 8 weeks and span 2 to 4 months. It's not a quick, easy call at the last minute, so don't wait! Months of preparation go into having a successful, efficient audit.

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