

# Preparing for and Surviving an Audit

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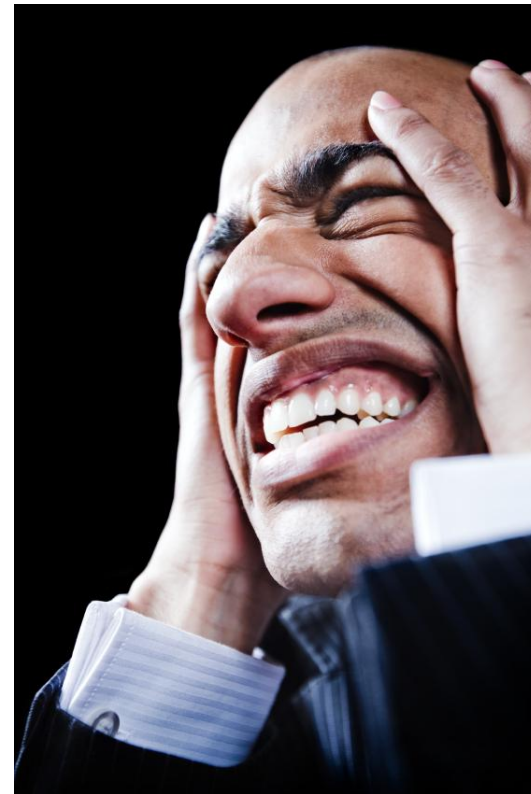
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# Presenter:

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# Introduction to Audits

- ❖ What is the typical feeling about an audit?



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# Advantages & reasons for having an audit

- ❖ It's required!
- ❖ Identifies areas of process improvement
- ❖ Provides comfort to investors and contributors



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# How to prepare for an audit?

- ❖ Research available audit firms if you do not already have one.
  - Considerations
- ❖ Close books for the year
  - Post any closing entries
  - Ensure trial balances are accurate
- ❖ Reconcile sub-ledgers to trial balance



# How to prepare for an audit?

- ❖ Inform employees of when the audit will begin and how long it will last.
  - Identify which employees will interact with auditors consistently and make sure their schedules will be open during the audit.
  - Communicate the “chain of command” to your auditor
  - Be prepared to provide a work space for your auditor based on their needs.

# How to prepare for an audit? (cont.)

## ❖ Be prepared

- Review and provide items detailed on client assistance list which should be provided by your auditor.
- Remember, time is money. Anything prepared ahead of time will save time during the audit and while the auditor is performing their testing.

# Client Assistance Items

## ❖ General

- In an initial audit your auditor will typically request the following items:
  - Organizational information
    - Bylaws, corporate charters, state registrations, formal policies and procedures manual, etc.
  - All loan and lease agreements

# Client Assistance Items

## ❖ General

- Annually you will need to provide the following:
  - Any NEW loan or lease agreements
  - Minutes from shareholders or board of directors meetings through the date of your audit.
  - Information regarding any events that may have occurred subsequent to year end that could potentially impact the financial statements.

# Client Assistance Items

## ❖ Cash

- Have bank accounts reconciled and agreed to trial balance. You will need to provide copies of the original bank statements as well as the reconciliations.
- Be prepared to explain any unusual or significant reconciling items.

# Client Assistance Items

## ❖ Accounts Receivable

- You will need to provide detail for all receivables, either by customer or invoice.
- Have detailed sub-ledger reconciled to trial balance.
- In some cases your auditor may wish to confirm a sample of these items.
- Be prepared to explain any unusual or significant reconciling items.

# Client Assistance Items

## ❖ Inventory

- Be prepared to provide a detailed listing of inventory items.
- Have listing reconciled to trial balance.
- Depending on the quantity and value of your inventory the auditor may need to observe a physical count at year end.
- Be prepared to explain any unusual or significant reconciling items.

# Client Assistance Items

## ❖ Fixed Assets

- You will need to provide a roll forward of fixed assets. Beginning balance, plus current year additions, less any disposals, and ending balances.
- You will need to provide the same roll forward of accumulated depreciation related to these assets.
- Have invoices for significant additions ready for auditor review.

# Client Assistance Items

## ❖ Accounts Payable

- Typically you will need to provide a check register from the end of the year through the date of your audit.
- Have detailed sub-ledger reconciled to trial balance.
- Be prepared to explain any unusual or significant reconciling items.

# Client Assistance Items

## ❖ Debt

- You will need to provide a roll forward of debt to include beginning balances, plus proceeds from borrowings, less payments made, and ending balances.
- If this is your initial audit your auditor will most likely need copies of all loan agreements.
- Have a schedule prepared for the future maturities of long term debt.

# Client Assistance Items

## ❖ Income/Expense

- Typically your auditor will prepare an expectation of what income/expense balances should be. This will be based on your organization and your discussions with your auditor.
- Be prepared to explain fluctuations for accounts that may fall outside of these expectations.

# During the Audit - Your responsibility

❖ Be prepared to explain your processes including but not limited to the following:

- Payroll
- Cash Receipts
- Cash Disbursements
- Accounts Receivable / Sales
- Computer systems and software
- How you identify & implement controls to minimize fraud risks.



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# During the Audit - Your responsibility

- ❖ Set aside time to talk to the auditor about any questions you or your auditor may have.



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# During the Audit - Auditor responsibility

- ❖ Gain an understanding of organization and processes followed.
- ❖ Verify client balances by tracing information to original support on a test basis.

# During the Audit - Auditor responsibility

- ❖ Communicate any suggestions for improvement with organization management and employees.
- ❖ Communicate any differences noted in the testing of client balances.

# After the Audit



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# After the Audit

- ❖ Celebrate a successful audit with your employees.
- ❖ Schedule a time to discuss areas of improvement.
- ❖ Schedule a meeting to determine how you will approach issues or errors brought forth by the auditor.

# After the Audit

- ❖ Begin preparation for next year



"You seem to have the qualifications  
we're looking for in an accountant"