

# Financial Audit Preparation Checklist

A free financial audit checklist for your business. Make sure you're obtaining optimal profit margins, and make sure you are operating within all tax and government regulations.



## 1. Budgets and Financial Statements

- ☐ A judicious business has a set of budgets and financial statements that allows them to monitor and measure the financial health of the company through year-end. Budgets should be put together at the beginning of each year for targeted income and expenses, then monitored monthly. Four primary financial statements, the balance sheet, income statement, statement of owners' equity and statement of cash flows, should be reviewed for accuracy, completeness and compliance with generally accepted accounting principles.

## 2. Transaction Documentation

- ☐ All financial transactions should be documented in the company's general ledger. Whether documented in manual form or with an electronic system, each transaction should be consistently recorded with enough information to identify who created it and for what purpose. Each should be stamped with the transaction date.

## 3. Revenue and Sale Costs

- ☐ Audit staff should conduct tests of the revenue and cost-of-sales entries in the general ledger and subsequent financial statements. Sales entries should be confirmed by proving shipment of products; delivery of services; or percentage-of-completion accounting calculations, which allow businesses to record periodic revenue on long-term contracts. Costs-of-sales entries should be properly timed with associated revenue entries and checked for accuracy.

## 4. Expense Approvals

- ☐ All expenses, whether paid with by cash or check, should be governed by written procedures and controlled with appropriate

levels of approval before payment. Checks and petty cash funds should be locked up with minimal access. A double signature should be required and verified for release of cash or checks, including payroll expenses.

## 5. Accrual Accounts

- ☐ Accruals should be in place to establish balance-sheet reserves for pending payments. This should include items such as monies due for earned employee wages awaiting payroll processing, vacation or sick-day earnings and bonus or commission agreements. Accruals should also be funded for state, local and federal taxes due for property, sales or income, as required by law.

## 6. Trial Balance

- ☐ A company's "trial balance" includes the values of all accounts as of a snapshot in time. Audit procedures should confirm the balances with special attention paid to the reconciliation of major ones. Documentation should be provided in support of the balances for accounts receivable and accounts payable, in the form of detailed aging reports. Inventory and fixed assets should be confirmed by item, quantity and value, with verification of periodic cycle counts to confirm accuracy throughout the year. Cash balances should be confirmed through reconciliation with bank statements.

## 7. Separation of Duties

- ☐ It is imperative to verify the separation of duties for all financial transactions, to provide internal controls that help prevent mistakes or fraudulent activity. For example, the person who writes a purchase order should not be able to write a check to pay a supplier. In small companies, this can be challenging. However, finance staff can solicit personnel from other departments to support such checks and balances.

## 8. Major Contracts

- ☐ Because major contracts with suppliers or customers can greatly affect a company's financial condition, all agreements should be reviewed to confirm the business is meeting its contractual obligations. This includes a review of major leases, purchase and sales agreements, insurance policies or any other written company obligation.

## 9. Bylaws and Meeting Minutes

- ☐ Bylaws adopted by the board of directors for the benefit of the business and stakeholders should be documented and reviewed to verify compliance with all directives. The minutes from corporate meetings should also be reviewed to confirm appropriate actions have been taken to address any issues discussed during these meetings.

## 10. Confirm Regulatory Compliance

- ☐ Audits should be performed to confirm compliance with all regulatory agencies that govern the business. This should include the filing of local, state or federal taxes. It should also include compliance with agencies that require periodic reporting of statistics or other actions to reduce physical risks or maintain a financially sound business environment.