



How to better prepare for an audit

by Costina Constantin, Fellow Chartered Certified Accountant (FCCA)

Certified Internal Auditor (CIA)

Financial auditor

The statutory audit season is linked to the statutory deadline for the annual financial statements filing; the 2023 season just ended two weeks ago. The annual audit process can be a difficult and time-consuming activity for many companies and their finance and accounting department. The bigger the size of the company and the more complex its operations, the more disruptive the audit can be perceived. This can be valid also for smaller companies, where the key financial and accounting tasks are allocated to a few employees, sometimes one chief accountant or a finance manager being the only person involved in the annual statutory audit process. The audit season which just ended can be a learning opportunity for both companies which already experienced it or for those whom 2024 shall be the first time audit. There are simple and effective takes which can make the audit process smoother and more time and resource efficient for companies.

Proactive planning of the year-end accounts

A proper review of the accounting records and the preparation of the accounting evidence and breakdown by the local finance and accounting department, ahead of the audit kick-off, is one of the most important planning activities which can be done internally. This helps reducing the time necessary for the audit field work, hence, the disruption caused by the audit, but more importantly, it is a tool for the accounting team to spot any differences and unreconciling items, and to proactively make the necessary corrections.

By performing the accounts reconciliations as soon as the financial year closes, can save a significant amount of time when the audit work begins. A pro-active full account reconciliation performed not only at year-end, but at least on a quarterly basis, is also an indication to the audit team of a healthy control environment. In addition, the Romanian Accounting Law no. 82/1991 imposes the annual patrimony evaluation for all companies; the key activities of this process being the stock take and balance confirmation of the accounts payable and receivable. These are control activities verified by the auditors during their field work.

The annual reconciliation of customers and suppliers' balances is also a tool to impose a financial discipline to the company's partners. For customers, the balance confirmation process also serves as a reminder of the outstanding balances, and in case of old balances, it prevents reaching the prescription term and assists the evaluation of necessary allowances.

The failure to perform the annual inventory of all assets and liabilities is fined according to the Romanian Accounting Law. The fine ranges from 3,000 RON to 20,000 RON. Also, during most of the tax audits, the tax inspectors require the documentation of the annual inventory.

Use the prior-year audit experience

Having gone already through an audit process is an experience which can be used by the finance and accounting department in many ways. The most valuable takes from an annual auditing are avoiding the prior year audit adjustments and anticipating the audit requests. Upon the finalization of the audits, auditors issue a Management Letter where all problems are identified and corrective measures are presented to the management. The more the finance management is pro-actively and openly involved in the discussion of the points raised by the auditors and assume an action plan for remediation, the more successful the outcome of the following audit will be.

The fiscal treatment of a transaction should not determine the accounting treatment

The tax treatment of not deducting the set-up of allowances and provisions for corporate income tax calculation is sometimes an argument raised by accountants when not fully setting up the necessary allowances and provisions. Auditors expects that the assets and liabilities are presented in the financial statement at their fair value, regardless of the tax impact of such presentations. Any departure from the accounting principles can trigger audit adjustments, and, hence, additional work for the financial and accounting department.

Disclose major projects to auditors ahead or upon their implementation

Major projects or transactions may trigger a complex accounting and a detailed assessment of the underlying economic substance. By validating the accounting treatment of the respective project or transaction with your auditor upon their implementation eliminates the risk of having a different view by the auditors on the appropriate accounting treatment and, respectively, an audit adjustment at year end.

Conclusion

In conclusion, a good internal control framework through permanent analysis of the quality of the accounting records and the related supporting evidence, periodic accounts reconciliation and implementing of any corrective measures sets the basis for a smooth audit process for the financial and accounting department.

Contact and further information:



STALFORT Legal. Tax. Audit.
Bucharest – Bistrița – Sibiu

Office Bucharest:

T.: +40 – 21 – 301 03 53

F: +40 – 21 – 315 78 36

M: bukarest@stalfort.ro

www.stalfort.ro