

PKF PERSPECTIVES

PREPARING FOR A VISIT FROM YOUR AUDITORS

YOU AND YOUR STAFF CAN MAKE THE VISIT FROM YOUR AUDITORS GO AS SMOOTHLY AND BE AS NON-INTRUSIVE AS POSSIBLE BY GATHERING THE INFORMATION REQUESTED BY THEM IN ADVANCE OF THEIR ENTRY DATE.

Generally, your auditors will communicate with you prior to their visit and provide you with a listing of information they require to conduct the audit. In all likelihood they will request additional information for testing during their visit, including their random selections of specific transactions; however, a good deal of the material needed by them can be gathered ahead of time.

The list received from your auditors should also sensitize your staff to the need for financial and other records to be maintained on a timely and accurate basis during the entire year.

The following are some of the items (categorized by type of record) that may be requested. It is by no means an exhaustive listing. All original documents should be returned to you by the auditors, and it would be to your advantage to maintain a control list of any original records given to them and to monitor subsequent return.

Corporate Documents

Generally the auditors will ask for all new contracts and agreements entered into by the company which are in effect during the year-end under audit, including:

- Office and warehouse leases.
- Equipment leases and contracts.
- Employment contracts.
- Loan and mortgage agreements.

Cash and Cash Equivalents

The following information will in all likelihood be requested:

- Bank reconciliations as of the company's year-end.
- Bank statements for all accounts as of the company's year-end and through current date.

Internal Controls

To assist the auditors in evaluating the company's internal controls, the following material will likely be requested:

General

- Completion of the auditors' questionnaire relative to the company's internal controls, including the provision of the names and titles of individuals performing the functions listed.
- Company memoranda relative to internal control procedures, including narratives and standard operating procedures detailing and/or addressing the following functional areas:
 - Cash receipts and revenue recording.
 - Cash disbursements.
 - Payroll.

Cash Receipts and Revenue Recording

- All reports which reflect revenue-generating activities of the company.
- Reconciliation of cash receipts to revenue earned.

Cash Disbursements

The auditors will most likely request check registers for specified months. In addition, they will generally request the following information for each check number that they randomly select:

- Purchase order.
- Receiving report.
- Invoice.
- Cancelled check.
- Voucher register evidencing that the invoice was posted to the general ledger.

Payroll

The auditors will likely request the following for testing:

- Payroll registers for selected period(s).
- Payroll journal entry worksheets used to post payroll to the general ledger for selected period(s).
- Payroll change reports for selected period(s).

Accounts Receivable

- Schedule (detailed aging summary) of all accounts receivable at year-end, including support for items over a specified amount.
- Schedule and supporting documentation of all bad debt write-offs during the year under audit.
- Schedule to support collection of accounts receivable subsequent to year-end.

Inventory

- Supporting documents/inventory control worksheets, together with invoices, to test costing of specified inventory items.
- Memorandum or narrative stating how the inventory count is performed and costed.
- Reconciliation of inventory detail to year-end inventory count.

Prepaid Expenses

- Schedule of all prepaid accounts at year-end date.
- Supporting documentation/invoices for all prepayments above a specified dollar amount.

Property, Plant and Equipment (Fixed Assets)

The auditors will likely request schedules of balances in each property, plant and equipment account, including cost and accumulated depreciation, and which provide:

- Beginning balance, with documentation as to how derived, and ending balance.
- Additions, with invoices or supporting documentation for items over a specified dollar amount.
- Depreciation.
- Disposals.

In addition, the auditors will most likely request a narrative detailing the company's capitalization policy. They may also request a detailed general ledger printout of all repairs and maintenance accounts.

Accounts Payable

- Aged accounts payable ledger at year-end.
- Supporting documentation for items over a specified dollar amount.
- Cash disbursement listings for periods after year-end.

Accrued Liabilities

- Schedule of accrued liabilities at year-end with supporting documentation for items over a specified dollar amount.
- Detailed narrative stating the company's policies and calculation method for employee vacation, sick, holiday and personal time accruals. Employee files may be requested for testing on site.

Variance Analysis

The auditors will request a summary explaining the reason for significant variances in both balance sheet and income and expense accounts from the current period to the prior period and budgeted amounts.

Taxes Paid or Payable

The auditors will request schedules reflecting calculation of all taxes paid and payable during the year.

* * *

THE DOCUMENTS AND OTHER MATERIAL LISTED ABOVE ARE JUST SOME OF THE ITEMS THAT AUDITORS MAY REQUEST PRIOR TO THEIR YEAR-END VISIT. OTHER INFORMATION REQUESTS, OF COURSE, WILL BE MADE IN THE FIELD. BEING PREPARED SO THAT YOUR AUDITORS CAN BEGIN THEIR WORK ON ARRIVAL WILL HELP TO ENSURE THEIR TIMELY COMPLETION OF YOUR AUDIT.

Items in this publication should not be considered official statements of position, nor advice for individuals or organizations without consulting a professional advisor. This information is not intended to be, nor can it be, used by any taxpayer for the purpose of avoiding tax penalties. For more information, please contact the director in charge of your account or John Haslbauer, the Chairman of PKF's Accounting & Auditing Committee.

PKF

**Certified Public Accountants
A Professional Corporation**

29 Broadway New York, NY 10006

Telephone: (212) 867-8000 Telefax: (212) 687-4346

www.pkfnewyork.com E-mail: info@pkfny.com

May 2006