



Accelerate Your Audit:

# **BEST PRACTICES FOR A SUCCESSFUL AUDIT**



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Are you an accounting team gearing up for your first audit? Or maybe your team has been through audits before, but you're looking for ways to streamline the process and ensure a successful outcome. No matter what your experience may be, undergoing an audit can be a daunting and challenging task. From the time-consuming nature of gathering documentation to the disruptive impact on day-to-day operations to complex, ever-evolving regulations, there's no denying that audits can be a pain point for accounting teams. However, with various stakeholders such as public companies, investors, and banks requiring audits, they are an essential aspect of financial reporting that cannot be ignored.

**But fear not, you can ac-count on us at Blue Onion!**

## → MEET BLUE ONION

We are Blue Onion. A SaaS accounting software company that leverages machine learning to automate order-to-cash reconciliation and revenue recognition. By algorithmically performing a four-way match between sale, payment, bank payout, and general ledger transaction, we reconcile each originating order and cash sale to its corresponding payment transaction and fees to ultimately its settlement in the bank account.

This guide is here to help you ace your next audit and make the process as painless as possible. Whether you're a seasoned pro or tackling your first audit as you transition from cash-based to accrual-based accounting, this guide will provide valuable tips, strategies, and best practices to ensure a successful outcome. Keep reading to learn how you can streamline your audit process and come out on top.

## Blue Onion's Best Practices for Audits

We tapped into our experts for advice on the crucial steps to take during an audit. Here are the standout best practices and key considerations we think are important to keep in mind when you're knee-deep in the audit process!

**LET'S DIVE IN!**

# 1. Pre-Audit Preparation

- Confirm the audit scope and objectives.
- Review the previous audit findings and recommendations.
- Ensure the availability of required financial records, documents, and reports.
- Schedule the audit timeline and communicate with relevant stakeholders.

Before commencing the audit, thorough pre-audit preparation is essential. This involves defining the audit scope, aligning the objectives with the organization's goals, reviewing previous audit findings, and ensuring the availability of all necessary financial records and documents. Effective communication with relevant stakeholders and scheduling a clear audit timeline are also crucial aspects of the preparatory phase.

# 2. Regulatory Compliance

- Verify compliance with applicable accounting standards, regulations, and laws.
- Review changes in accounting standards and assess their impact on the financial statements.

Ensure that the audit checklist includes a comprehensive review of regulatory compliance. This involves verifying adherence to applicable accounting standards, regulations, and legal requirements. Given the dynamic nature of accounting standards, it is essential to stay abreast of changes and assess their impact on the financial statements.

## 3. Financial Statements Review

- Analyze the accuracy and completeness of the financial statements, including the balance sheet, income statement, and cash flow statement.
- Verify the appropriateness of accounting policies and estimates used.

A meticulous review of the financial statements is central to the audit process. The checklist should encompass an analysis of the accuracy, completeness, and reliability of the balance sheet, income statement, and cash flow statement. Additionally, it should verify the appropriateness of accounting policies and estimates utilized.

## 4. Internal Controls Assessment

- Evaluate the effectiveness of internal controls related to financial reporting, such as segregation of duties and authorization processes.
- Assess the reliability of the accounting system and IT controls.

Assessing the effectiveness of internal controls related to financial reporting is paramount for ensuring the reliability of financial information. The checklist should include an evaluation of the segregation of duties, authorization processes, and IT controls to mitigate the risk of misstatements or fraud.

From start to finish, it's crucial that no single person has exclusive access to a transaction. These safeguards are in place to thwart potential fraud. This becomes particularly crucial during an audit as auditors seek direct insight into how your accounting data is documented. Do you have a second set of eyes for approvals on your team? Are wire transfers signed off by upper management? If these protective measures are in place or evident in your team's practices, auditors will have greater confidence in your financial records, potentially reducing the need for extensive sample-based tests.

## What is Control-Based vs. Sample-Based Testing?

### **CONTROL-BASED TESTING**

Control-based testing is an audit procedure that evaluates the design of controls to determine if they are appropriately implemented and address the most significant risks.

### → BLUE ONION-CERTIFIED TIP

- **Identify Key Controls:** Define and document key internal controls relevant to the audit objectives.
- **Assess Control Effectiveness:** Evaluate the design and operational effectiveness of identified controls through walkthroughs and testing.

## **SAMPLE-BASED TESTING**

Sample-based testing is an investigative tool in which less than 100% of the total items within the population of items are selected to be audited. It is an auditing technique that provides supporting evidence that allows auditors to issue audit opinions without having to audit every single item and transaction.

Auditors often leverage statistical techniques to craft transaction samples for testing. For instance, they might choose transactions representing a specific percentage of total transactions in an account (e.g. 10% of 3 billion transactions) or of the company's assets/revenue (e.g. 5% of \$45MM). Alternatively, random transaction samples can be generated using statistical sampling software. Auditors can even opt for nonstatistical methods based on a dollar threshold or professional judgment. However, these techniques tend to be more effective when the practitioner has many years of audit experience, helping to ensure the sample chosen is accurately representing the population of transactions.

Auditors go into sample analysis with certain expectations about the number of “exceptions” they might find – think errors and omissions. But if they stumble upon more exceptions than anticipated, they may need to delve deeper into testing. Overall, sampling hinges on the assumption that controls operate uniformly across all transactions. If they don’t, auditors could deem your internal controls inadequate. If so, a more in-depth investigation is needed to estimate the magnitude of the control failure.

## → HOW BLUE ONION CAN HELP

Blue Onion serves as an independent control and valuable ally that can save teams countless hours to days typically spent scrambling to prepare for audits. With its ability to offer transaction-level subledger-type reporting, Blue Onion streamlines the process of reconciling year-end balances of deposits in transit, making financial tasks more efficient and effective. This kind of extensive reporting eliminates the likelihood of auditors finding substantial control slip-ups like errors and omissions.



## 5. Asset Verification

- Confirm the existence and valuation of assets, including inventory, property, plant, and equipment.
- Reconcile asset balances with supporting documentation.

Incorporate a detailed asset verification process into the audit checklist. This entails confirming the existence and valuation of assets such as inventory, property, plant, and equipment. Reconciliation of asset balances with supporting documentation should also be a focal point.

### → HOW BLUE ONION CAN HELP

Blue Onion's cutting-edge data algorithm seamlessly automates the order-to-cash reconciliation process, meticulously each order from point of sale through payment processor and to payout in the bank, giving teams a complete view of each transaction.

We perform over 13 regression tests on the data, ensuring completeness, robustness, and cleanliness through our reconciliation process. With transaction-level reporting, you get access to unified, reconciled data that is easily searchable and verifiable with links back to sources. Blue Onion's unique reconciliation process and transaction-level detail provide exceptional visibility into cash flow, allowing you to easily track pending cash transactions and validate crucial balance sheet accounts.

## 6. Liability and Equity Analysis

- Review liabilities (gift cards, deferred revenue, etc.) and equity transactions for accuracy and completeness.
- Verify the proper classification of debt and equity instruments.

Analyze liabilities and equity transactions to ensure their accuracy and completeness. Verify the proper classification of debt and equity instruments in accordance with accounting standards.

### → HOW BLUE ONION CAN HELP

#### **GIFT CARD TRACKING:**

An order-to-cash reconciliation solution can facilitate seamless tracking and reconciliation of gift card sales and redemptions, ensuring accurate recognition of revenue and liabilities associated with gift cards.

#### **DEFERRED REVENUE:**

When you owe product to your customer, it's crucial to be able to keep tabs on this liability. Blue Onion comes equipped with an entire Deferred Revenue/Liability Sheet that allows you to see outstanding balances at any given period.

Blue Onion can also provide transaction-level subledger-type reporting for both year-end gift card balances and deferred revenue.

## 7. Revenue Recognition and Expense Analysis

- Ensure your revenue recognition method is up for the challenge and avoid any delays in realizing revenue.
- Validate the legitimacy and accuracy of reported expenses to ensure their alignment with financial reporting standards.

Auditing presents a systematic and complex process filled with numerous challenges. Amidst hurdles, revenue recognition is one of the most formidable obstacles. In many cases, audit evidence can appear to be too insufficient or ambiguous, hindering auditors from decisively verifying the legitimacy of reported revenue promptly.

### → HOW BLUE ONION CAN HELP

It's frustrating to both auditors and business owners when internal control weaknesses recur year after year. Blue Onion revolutionizes revenue recognition by automating it in accordance with Generally Accepted Accounting Principles (GAAP) and ASC 606. This ensures accurate and consistent revenue recognition, even for orders with multiple shipments or timing delays.

#### **SHIPPING AND TRACKING MONITORING:**

By seamlessly integrating with shipping and tracking systems, Blue Onion enables real-time monitoring of fulfillment dates, shipping status, and tracking numbers, enhancing visibility into order fulfillment and delivery processes.

## 8. Tax Compliance

- Ensure compliance with tax regulations and reporting requirements.
- Review tax provisions and deferred tax assets/liabilities.

Include a thorough assessment of tax compliance in the audit checklist. This involves verifying adherence to tax regulations, reviewing tax provisions, and assessing deferred tax assets/liabilities.

## 9. Documentation and Working Papers

- Maintain comprehensive documentation of audit procedures, findings, and conclusions.
- Organize working papers and cross-reference supporting evidence with audit assertions.

Maintaining comprehensive documentation of audit procedures, findings, and conclusions is imperative. Organizing working papers and cross-referencing supporting evidence with audit assertions facilitates transparency and accountability throughout the auditing process.

## 10. Risk Assessment and Contingencies

- Identify and evaluate potential risks, contingencies, and subsequent events affecting the financial statements.
- Assess the adequacy of disclosures related to risk factors.

Identify and evaluate potential risks, contingencies, and subsequent events that may impact the financial statements. Adequate disclosures related to risk factors should also be assessed for their accuracy and sufficiency.

## 11. Management Representations

- Obtain written representations from management regarding financial statements and related matters.

Obtaining written representations from management regarding financial statements and related matters is crucial. The audit checklist should include a process for documenting and validating these representations.

## 12. Audit Committee Communication

- Communicate with the audit committee or board of directors regarding significant audit findings and recommendations.

Effective communication with the audit committee or board of directors is essential. The checklist should encompass clear channels for sharing significant audit findings, recommendations, and insights with the relevant governance bodies.

## 13. Post-Audit Follow-Up

- Document any identified deficiencies and propose corrective actions.
- Prepare the audit report summarizing the audit findings and recommendations.

Following the completion of the audit, documenting identified deficiencies and/or discrepancies, and proposing corrective actions are key aspects of this checklist. This ensures that any shortcomings are addressed and necessary improvements are implemented in a timely manner.

## Automate Your Next Audit

We hope this checklist serves as an effective roadmap for conducting your next comprehensive and efficient audit.

By incorporating the best practices outlined above, organizations can not only instill confidence in the accuracy and reliability of their financial information and mitigate risks, but they can also demonstrate a truly priceless commitment to transparency and integrity in their financial reporting processes.