

Rödl & Partner

NEWSLETTER LATVIA

SETTING ACCENTS

Issue:
September
2020

How companies can prepare for effective
and efficient audit

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 - Closing procedures at the year end

→ How companies can prepare for effective and efficient audit

The financial audit of a company is either mandatory according to law based on meeting certain criteria, required by shareholders, or performed for group reporting purposes only. An audit process is a cooperation between auditors and the client's team. An efficient audit process is smooth not only for the external auditor but also for the client, as the process is fast, there are no unexpected surprises and audit deliverables can thus be issued on time. We propose following hints for your consideration to make the audit process as efficient as possible.

Selection of the proper timing

Selection of a proper timing is the most important thing, as auditors expect and plan that the client's personnel, especially finance and accounting staff will have time and availability for cooperation with the audit team. However close cooperation with the auditor is the key to smooth process. Monthly closing, monthly payroll calculation and tax return preparation are all complex tasks for the finance and accounting teams of the companies, usually with tight deadlines and cannot therefore be performed simultaneously with the work on audit assignment. Also we advise to consider internal reporting deadlines and timely plan the audit process in other dates.

Preparation of the required information

Before the start of the audit, a list of necessary information is sent by the auditors to the client. It is crucial to follow the list and prepare all the information on a timely basis and assign responsible employees for the task. We advise to always follow and provide the information in a format requested, such as PDF for all signed documents and Excel for data extracted from the accounting system. In cases where the preparation of the information is complex and requires more time than expected, the auditor should be informed immediately, thus allowing for potential rescheduling.

Procedures to be followed throughout the year

During the entire financial year it is advisable to prepare and maintain files for internal control purposes, which inter alia include data concerning complicated accounting areas, such as payroll and

value added taxes, transactions with related parties, lease and rent agreements, estimates and provisions, transfer pricing and other information of high importance. We recommend to maintain an electronic database containing scanned copies of all significant agreements with signatures. Developing an internal control system for revision of the quality of the documents - such as verifying signatures on invoices, payroll lists, payroll time sheets, agreements and orders - has also proved to be effective.

In a situation where complex or new accounting or tax related issues arise or legislative framework is changing, seek advice and consult auditors, lawyers or tax consultants before and not after the transaction.

Last, but not least - review accounting and tax issues identified in the management letter provided by auditors during the previous audit and verify whether necessary actions have been performed to solve or duly address the issues and remarks.

Closing procedures at the year end

- Prepare a checklist for the accounting procedures to be followed by the accounting department, starting the deadlines and tasks;
- During the year and especially at the yearend perform an analytical analysis of profit and loss accounts on a month by month and year to year basis, which is a great tool for ensuring the proper cut-off of sales, expenses and different estimates;
- Perform the reconciliation of receivable and payable balances using third party confirmations, which also includes related party balances and turnovers.

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