

THE AUDIT PROCESS

In auditing the financial statements of your organisation, the following basic audit process is applicable to organisations incorporated under ASIC, ORIC, the ACNC and Incorporated Association regulations.

Role of the Auditor

The role of the auditor is to provide an opinion as to whether they believe the financial statements provide a true and fair reflection of the financial performance and position of the organisation. Additionally, they may also be required to provide an opinion as to whether any grant funding from any governmental agency has been fully acquitted in accordance with the requirements of the funding agreement.

The role of the Auditor is **not** to uncover any fraudulent activity, unless this task is specifically requested of the auditor in the audit engagement. However, the auditor will advise the organisation in writing if they have come across such activity during of the audit.

Tip: have the auditor provide a letter of engagement so that you and the auditor are perfectly clear on the terms of the audit engagement.

Planning

Initially it is the role of the auditor to understand the organisation – what it does and how, the financial systems employed, its financial history and whether it has any ‘going concern’ / solvency problems. Accordingly, the auditor will seek to meet with you and to become apprised of these issues.

Tip: If your financial system is in good shape and you keep good financial records, it will enable the auditor to feel more comfortable and possibly quote a cheaper audit fee.

Tip: at any initial meeting with the auditor have copies of your last year’s accounts available as well as copies of any recent brochures sharing the activities of your organisation. Also show the auditor around your financial system and organisation and provide them with a copy of any current financial reports which you feel are pertinent. Don’t be afraid to ask any questions.

Auditing your financial performance

The financial performance of any organisation is detailed in its Profit and Loss Statement, sometimes called an Income & Expenditure Statement by non-profit organisations.

Typically, the auditor will undertake a combination of three different types of testing to satisfy their opinion of the financial performance of an organisation.

Transaction testing

On a sampling basis the auditor will seek to determine whether the financial system delivers appropriate controls to ensure all expenditures are authorised, recorded in the right account, in the right period, are only paid on bona fide invoices, and paid and reconcilable through the bank account. Income is similarly tested.

Reconciled to assets and liabilities

Some items of financial performance are reconciled directly with the balance sheet. For example, sales may be tied to debtors, depreciation expense tied to fixed assets, wages tied to leave and tax liabilities, and grant income tied to income in advance.

Trend and ratio tests

The auditor will also look at performing various trend and ratio analysis. These are forms of reasonableness testing.

Auditing your financial position

The financial position of an organisation is detailed in the balance sheet, the statement detailing the assets you own and the liabilities you owe.

In auditing the balance sheet, the auditor will want to verify the existence and value of the assets. This is typically through observation of the physical assets, tracking title of assets, as well as tracing the cost of the acquisition and any valuations.

In looking at liabilities the auditor will seek when possible third-party confirmations of liabilities, for example review of statements of outstanding debts from creditors, statements by the ATO regarding tax obligations, and if needed declarations of leave obligations from staff.

The auditor will want to know fundamentally the financial resources for continued operation.

What financial records will be examined?

Depending on the structure of the organisation being audited, the records commonly examined are:

- Financial statements prepared by the organisation.
- General ledger.
- Any outsourced service reports.
- Bank statements, cheque butts and deposit books.
- Payroll records and statements.
- Taxation records and statements.
- Sales and debtor ledgers.
- Grant funding records and agreements.
- Payment documentation including files of invoices supporting payments.
- Inventory records.
- Creditor records.
- Fixed asset registers including any property title deeds.
- Leasing and other financing contracts.
- Minutes of meetings of directors / committee members and of the AGM.
- Employee files and leave records.
- Insurance documentation.

Tip: to reduce the cost of the audit, have all the above records properly filed and organised for the audit.

Tip: if you don't think you have all the information sorted or would like to enquire how to better prepare your financial system, contact Farmilo & Co today.

After the Audit

After the audit the Auditor will usually do the following:

- Sign off the independent auditors' report declaring their opinion as to the fairness of the financial statements. However, the Auditor will only sign AFTER the directors / committee members sign off their declaration to members as to their belief of solvency and preparation of the financial statements.
- Provide a management letter to the board detailing any issue which, in the opinion of the Auditor, requires their attention.
- Attend the presentation of the accounts to the members of the organisation, typically at the AGM.

Who can be your Auditor?

An audit can only be undertaken by a person who is independent of the organisation and who can provide their opinion without fear or favour, and who is qualified to the extent required by the relevant Act and by any funding agreement.

Accordingly, the following persons should **not** be your Auditor:

Any employee or associate of any employee.

Any director or shareholder or member of the organisation or any associates of them.

Any person not qualified under the terms of any relevant funding agreement.

Any person not qualified under the relevant Act under which your organisation is regulated.

Any independent accountant or bookkeeper who does the primary financial data accounting / bookkeeping or any associates of them.

Greg Farmilo is a Chartered Accountant and Registered Company Auditor and a Registered SMSF Auditor. He is qualified to audit company accounts under ASIC, ORIC, the ACNC and under the Associations Incorporated Act (NSW).

Disclaimer

This guide and the information contained herein, is generic in nature and a summary only and should not be used in any detailed or specific circumstances. We recommend you contact a professional before proceeding.

For more information please feel free to contact us at www.farmilo.com.au

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