KNOW GREATER VALUE™

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

## Financial Services Newsletter

# How to Streamline Year-End Audits and Avoid Unnecessary Cost Over-Runs

By Michael Provini, CPA, Jay Monaghan, CPA and Eric Gelb, CPA

As you begin your year-end audit planning process, management can proactively streamline the audit process and reduce audit-related cost over-runs. When you undertake advanced planning procedures before the audit, you can save staff time accumulating audit documentation and fielding questions; reduce disruptions to your staff's work process; and receive timely feedback from the independent auditors regarding internal control considerations and financial statement presentation and disclosures. You can also manage the timeline and expectations regarding the release of audited financial statements to investors and those charged with governance.

This article is designed to provide practical suggestions that will help you improve the audit process, minimize inefficiencies and save time by developing best practices.

### Preparing for the Annual Audit

Pre-audit planning and preparation is critical in order to help ensure an efficient and successful year-end audit. In order to best prepare, the entities being audited should consider the following:

- **Obtain, review and execute the audit engagement letter before year-end.** This will allow the audit team to properly schedule audit work in advance and to perform planning procedures during interim periods.

- **Obtain an information audit request list from the auditors**. This list should set forth the audit support and documentation required to facilitate the auditor's planning, testing and completion of the annual audit. This will also provide an opportunity to address any questions regarding the request list during the interim phase of the audit, allowing more time to plan and gather materials in advance of year-end. In addition, by getting started before the end of your fiscal year, it's likely your staff can allocate time to provide the requested support and information to the auditors before fieldwork begins.

- **Review the prior year's audit files and documentation**. It's likely the auditor will request substantially the same information and documentation as they did in the prior year. If you don't maintain organized document subdirectories and files already, you can save time by creating subdirectories and filing systems to store key corporate documents and other reports typically requested by the auditor.

- **Furnish an Interim Trial Balance and Financial Statements to the auditors.** A preliminary analytical review can then be performed and any material changes from the prior year can be discussed and addressed early.

- **Assign an experienced professional to prepare audit-ready financial statements with notes, and provide the draft financial statements to your auditors as soon as they are available.** This will save time, money and prevent delays – remember, the auditors test the balances and transactions as well as the disclosure. On occasion, clients will provide incomplete or inaccurate financial statements which can lead to increased audit fees, internal control findings and financial statement restatements.

- **During interim, review the prior year's notes to the financial statements and highlight any material changes to disclosures.** Examples include the schedule of investments, revenue recognition, the addition of Level 2 or Level 3 assets to your portfolios; changes in investment strategy; implementation of new financial instruments, for example foreign currency, interest rate swaps and other derivatives; corporate reorganizations; expansion into a new territory; leasing arrangements; etc.

- **Provide copies of notices from regulators, taxing authorities and documentation relating to pending and threatened litigation**. Summarize in a memo any issues auditors should be aware of.

- **Review the auditor's prior year letter regarding Internal Controls**. Evaluate whether you have implemented the recommended changes to your control environment based on the auditor's comments and recommendations.

- **Prepare a memo that explains any material changes to your business from the prior year**. This could include a change in accounting principles or changes in estimates, and then schedule a meeting to discuss these items with your auditors. This will help the auditor better plan for the audit and address any potential issues early on in the audit process.

- **Review any accounting standards updates that might impact your business and your financial statements.** This could minimize the changes to your financial statements and number of adjusting journal entries during the audit.

- **Provide signed copies or updates** of the operating agreements along with any applicable servicing, advisory and administrative agreements and contracts.

- **Discuss any required inputs from third party service providers**. Two examples include audit-ready financial statements with notes and valuation reports relating to Level 2 and Level 3 assets. These reports and other deliverables should be factored into the audit timeline. Accumulate disclosures, including support for Fair Value Level 1, 2 and 3 inputs.

- **Identify and assist the auditors in the preparation of audit confirmations.**

- **Discuss when your audit team intends to involve their Quality Control (QC) department to review the financial statements**. We have observed situations where an audit firm delays signing off on an entity's financial statements because the quality control (QC) group is backlogged or identifies significant issues that were not identified early on in the process. This is particularly important when you switch auditors or if a first-time audit. PKF O'Connor Davies, LLP has organized its audit process to involve QC review at the outset of an audit to discuss any material and complex issues; relevant new US GAAP pronouncements; and any material "risk areas." This reduces the likelihood of last-minute surprises or delays.

- **Discuss the timing of the expected completion date of the audit and the expected date that requested work papers, including the draft financial statements, are to be provided to the auditors**. The timing should be agreed upon by all parties, including administrators, valuation experts and other relevant service providers. All parties can, therefore, be held accountable for deadlines.

- **Set a timeline in collaboration with your independent auditor**. This should include document delivery; audit testing; confirmation process and review of the financial statements. Provide deliverables on time so you keep the audit process moving. Discuss how the audit team will interface with the tax group to prepare the federal, state and local tax returns and K-1s.

- **Discuss prior year issues** (if any) and the effect they may have on the current year's financial statements and the audit.

- **Update internal control memos** relating to the fund's various control cycles, including trading, investor services, treasury, information technology, net investment income (loss) and financial reporting cycles. These memos will assist the auditors in planning the audit, identifying internal controls and completing walk-through procedures.

- **Update valuation memos**, and any other applicable memos, for changes in your business and new accounting pronouncements that affect the financial statements and disclosures of the entity.

- **Update investor details**, contact information and capital allocations.

- **Identify and provide auditors a listing of related parties and related party transactions.**

- **Provide the minutes to meetings** held by those charged with governance, advisory committees, board of directors, audit committee or investment committees.

- **Review the investment portfolio for derivatives or debt obligations.** There are additional disclosure requirements for derivatives and debt obligations including required qualitative and tabular disclosures that should be tracked and disclosed in the financial statements.

- **Registered investment advisors should document in a memo their compliance with all filing requirements** such as the ADV filing and ADV-E filing if they are considered to have custody of investor securities subject to an annual surprise custody examination under SEC Rule 206(4)-2 "The Custody Rule."

## Be Ready

By taking proactive steps to plan and prepare for your annual audit, you can streamline the process and increase the potential benefits to your company, investment fund and firm.

PKF O'Connor Davies, LLP provides attest services, including audits, agreed upon procedures, and surprise custody exams. We also provide audit-readiness, administration, valuation and audit support services.

## Contact Us

For additional information on how preparing for your annual audit can benefit your organization, please contact Michael A. Provini, CPA, at mprovini@pkfod.com, Jay Monaghan, CPA, at jmonaghan@pkfod.com or Eric P. Gelb, CPA, at egelb@pkfod.com or your PKF O'Connor Davies' representative at 212.286.2600.

### About PKF O'Connor Davies

Our Financial Services Group provides attest services, including audit-readiness services; audits, agreed upon procedures, surprise custody exams and SOC Reports. We also provide complete fund administration and audit support; valuation; performance and risk reporting; investment and consulting services; and regulatory compliance (including Dodd-Frank and AIFMD). We are CIMA-registered. Our administration business was recently ranked 27th largest global administrator by eVestment.net.

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by *Accounting Today*. In 2018, PKF O'Connor Davies was named one of the 50 best accounting employers to work for in North America, by *Vault*. The firm was recently awarded "Best Accountancy Advice" by ClearView Media and Family Wealth Report and "Best Reporting Solution" by *Private Asset Management* (PAM).

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.