

Ask you CPA Seeking guidance with a tax audit

An audit's objective

An audit is undertaken on the initiative of the business owner, a request by a third party, or as a requirement of legislation or a trust deed. The auditor must be a skilled professional whose objective is to provide an independent review on the reliability of a matter that is the responsibility of another party. An audit is performed and a report is prepared by CPAs who have the requisite training and experience in auditing.

An auditor can undertake an audit or an audit-related service (i.e. review or agreed-upon procedures), which is tailored to the individual's circumstances, for a range of financial and non-financial information, provided their independence is not impaired. Audits and audit-related services can relate to:

- financial reports or components thereof.
- compliance with conditions governing the entity's activities under statutory requirements, trust deeds, contracts and other agreements.
- whether the resources of an entity have been acquired with due regard to economy, and are applied in an efficient and effective manner towards the achievement of the entity's objectives.
- other variable information, e.g. profit forecasts and adequacy of the system of internal control.

Benefits of an audit

If you've never had a professional audit of your business's financial affairs, why consider it now?

Because the benefits are extensive. Depending on the audit mandate, an audit can put your business on a sounder footing because it:

- gives the business greater credibility in the eyes of banks, financiers, government departments, creditors, potential purchasers and other users.

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- gives you confidence that your financial reports are free of material misstatement and can be relied on for decision-making purposes.
- satisfies statutory requirements for financial reporting.
- provides you with areas for improvement.
- provides an independent analysis of the financial structure of your business.

A negotiating tool

Having an auditor's report on your financial reports puts your business in a stronger negotiating position.

If you're looking to sell a part of your business, merge with another organization or simply restructure your business, then audited financial reports will be the key supporting documents in your negotiations with third parties.

If you're looking to renew loans from banks or finance companies, audited financial reports will lend weight to the two areas of loan applications that financiers evaluate most critically: projections of turnover and profit. Or if you're applying for a government grant, audited financial reports will give greater credibility to your submission.

Providing insight

An audit can encompass more than examination of your accounts and financial reports. An audit can look into the way the business operates and provide you with important information about your business, such as, whether:

- your accounting and budgeting systems are adequate.
- inefficient procedures and wasteful practices are costing you money.
- you are in shape for Tax Office audits.

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- the duties of those with financial control are adequately defined.
- earning could be improved by changes in management and pricing policies.
- your inventory management and control is adequate.
- your financial arrangements should be reviewed.
- your credit policies need revision.
- adequate systems and practices are being employed to safeguard business assets from criminal or negligent misappropriation.

CPA standards

A CPA is best equipped to help you audit your business.

CPAs are leaders in business, finance and accounting advice. The right to use the CPA designation is only given to degree-qualified professionals who have undertaken rigorous and comprehensive post-graduate study, the CPA Program.

In addition, CPAs are required to constantly enhance their knowledge and undergo ongoing professional development. This is achieved by undertaking structured professional development programs, including attendance at seminars, workshops, lectures and discussion groups.

CPAs are also bound by a strict Code of Professional Conduct and subject to regular quality assurance audits administered by CPA Australia.

With this combination of qualifications, skills and experience, CPAs remain at the leading edge of their profession, so you can be assured you will receive the best advice the next time you "Ask your CPA".

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Your auditing checklist

To get yourself into the best possible shape for a tax audit:

- Verify the cost of all assets so that depreciation claims may be confirmed.
- Check all records of capital expenditure to ensure that none have been used for non-business purposes.
- Ensure that all sales have been properly recorded.
- Check that you have substantiation of all motor vehicle expenses.
- Check the accuracy of all FBT declarations.
- Check that you have substantiation for all travel expenses.
- Check that you have full details of any payment to subcontractors, including names and addresses and amounts paid.
- Check that any declarations of interest or dividends match the amounts credited in your bank or dividend statements.

