Audit readiness

This module will help you:

Understand audits
Learn what audits are and why they matter

Identify needed audits
Determine required audit types (tax, financial, compliance)

Avoid costly mistakes
Prevent fines, fraud, or loan rejections

Prepare effectively
Organise documents for external audits

Set up internal checks
Implement systems to catch errors early

Choose qualified auditors
Select the right professionals

Use audit results
Use findings to improve your business

Get investor-ready
Package audit reports to attract funding

Key features

Video tutorials
Step-by-step visual guidance

Actionable checklists
Ready-to-use tools

Customisable templates
Adaptable documents

Quiz



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Understanding audits

An audit is a systematic and independent examination of an organisation's financial records, processes, and systems. Its primary purpose is to ensure accuracy, compliance with relevant regulations, and to provide an objective assessment of financial health and operational efficiency. They include:

External audit

An independent examination of an organisation's financial statements by an outside party.

Internal audit

An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations by an inside party.

Tax audit

A review of a taxpayer's financial information to ensure that tax laws have been correctly followed.

Compliance audit

An assessment to determine whether an organisation is adhering to regulatory requirements, internal policies, and procedures.

Why audits matter to your organisation beyond just compliance



Enhancing access to finance and trust

Audited financials build confidence with stakeholders, simplifying fundraising and opening new financial opportunities.



Identifying and mitigating key business risks

Independent audits uncover hidden operational, financial, or compliance risks, enabling proactive risk management.



Strengthening internal controls

Auditors identify process weaknesses, reducing fraud risk and boosting profitability through improved operational efficiency.



Ensuring accurate financial reporting

Audits verify financial reporting accuracy, correct errors, and elevate standards, especially concerning **Generally Accepted Accounting Principles (GAAP)**.

Consequences of a poor quality audit

Choosing the wrong auditor or neglecting audit quality doesn't just waste money: it can put your entire organisation at risk leading to:



Financial losses & unnoticed errors

Poor audits may fail to identify fraud, mistakes, or misreporting, leading to significant financial loss and flawed strategic decisions.



Damaged stakeholder trust

Inaccurate financial information can damage confidence with banks, investors, and suppliers, cutting off funding or partnerships.



Regulatory fines & legal liability

Missed compliance red flags can trigger penalties from tax authorities or industry regulators, and even lead to legal liabilities.



Reputational harm

If audit failures or credibility issues surface, it can severely damage your business image and public perception.

External audit

What is it?

An independent, in-depth examination of your company's financial statements.
Its goal is to provide an expert opinion on whether the statements accurately represent your financial position and comply with accounting standards (e.g., International Financial Reporting Standards, Generally Accepted Accounting Principles).

Who needs it?

You may need an external audit if your business is:

- Applying for large bank loans or raising equity Investment.
- Legally required under local Companies Acts or regulatory rules.
- Seeking to build trust with global partners, clients, or suppliers.

Key benefits

- **Credibility:** Builds trust with banks, investors, and partners.
- **Compliance:** Helps meet statutory and regulatory requirements.
- **Improved controls:** Identifies weaknesses, reducing fraud and errors.
- **Financing:** Opens doors to new funding opportunities.
- **Insights:** Provides accurate financial data for better decision-making.

Note that though auditors provide assurance, management remains responsible for the accuracy of information provided to them.

External audit process

Stage 1: Planning and risk assessment

- Auditors understand your business and financial processes to identify risks and define audit scope.
- **Who:** Audit firm, management, finance team.
- **Timeline:** 1-2 weeks.
- **Why:** Sets the foundation for an efficient, focussed audit.

Stage 2: Fieldwork and testing

- Auditors conduct detailed checks, examining records, testing controls, and verifying transactions.
- **Who:** Audit firm , finance & operational staff.
- **Timeline:** 3-6 weeks (varies by complexity).
- **Why:** Gathers evidence for the audit opinion.

Stage 3: Reporting and review

- Auditors prepare a draft report, discuss findings with management, and propose adjustments.
- **Who:** Audit firm, senior leadership, audit committee.
- **Timeline:** 2-3 weeks.
- **Why:** Allows discussion of findings and agreement on financial statements.

Stage 4: Opinion and issuance

- The audit firm issues its official audit opinion on the financial statements, and issues a management letter
- **Who:** Audit firm and management.
- **Timeline:** Around 1 week.
- **Why:** Provides stakeholder confidence and internal strengthening advice.

Internal audit

What is it?

Internal audit is an independent function (in-house or outsourced) that offers objective assurance and advice.
Its main goal is to improve risk management, internal controls, governance and operational efficiency through assessments and recommendations.

Who needs it?

- Your business is growing and getting more complex.
- You're in a regulated industry (e.g. health, finance,).
- You want to cut costs and work more efficiently.
- You're setting up formal governance structures (e.g. audit committee) and want to follow international best practices.

Benefits of internal audit

- **Stronger controls:** Identifies and fixes operational weaknesses.
- **Better risk management:** Enhances the ability to spot and handle major risks.
- **More efficiency:** Ensures compliance and streamlines operations.
- **Reduces fraud risk:** Adds checks to prevent dishonest behaviour.
- **Reassures leadership:** Provides confidence in business operations.

Internal versus external audits

Audits are vital for good business management. While both internal and external audits are crucial, they serve distinct purposes. Understanding these differences helps maximise their value for your organisation.

Feature	Internal audit	External audit
Objective	Improve controls, risk management, and efficiency.	Verify financial statements for external users.
Performer	Company staff or outsourced team.	Independent accounting firm.
Independence	Organisational, within company.	Fully independent of company.
Reports to	Management and board.	Shareholders and board.
Scope	Broad, flexible, risk-based.	Specific, financial statements.
Focus	Future-oriented (processes/controls).	Past-oriented (financial statements).
Frequency	Ongoing or periodic.	Usually annual.
End product	Recommendations for improvement.	Formal independent auditor's report.
Regulatory	No but recommended	Often required by law.

Setting up an internal audit function

As your organisation grows, establishing an internal audit function strengthens governance, manages risks, and ensures sustainable operations. It's a key investment in your business's health and future.

Why an internal audit function matters

Independent check-up	Get objective feedback on financial controls and management systems.
Cost savings	Identify areas to reduce waste and improve resource use.
Avoid legal trouble	Stay compliant with changing regulations (taxes, permits, etc.).
Stop fraud early	Detect theft or errors before they become major issues.
Increased credibility	Show banks, lenders, and investors your strong internal systems.
Supports formalisation	Transition from informal systems to structured processes and governance.

Core responsibilities of an internal audit function

Evaluating internal controls

Ensure controls are properly designed and effective.

Assessing risk management

Review how well risks are identified and managed.

Reviewing governance processes

Evaluate leadership structures and decision-making.

Checking compliance

Test adherence to internal rules and external regulations.

Validating data accuracy

Verify the reliability of financial and operational information.

Identifying improvement opportunities

Recommend ways to improve efficiency and value.

Special investigations

Investigate fraud, waste, or irregularities.

Steps to setting up an internal audit function

1. Get leadership buy-in

Explain benefits to leadership and create an audit charter.

2. Choose a set-up that fits your budget

Choose between outsourcing, co-sourcing, or in-house set-up.

3. Keep it independent

Ensure internal auditors report to the board or audit committee for independence.

4. Focus on business risks

Identify key risks and develop a risk-based audit plan.

5. Keep internal audit work simple and clear

Implement clear steps following global best practices .

6. Hire or choose the right people

Hire or select individuals/firms with relevant accountancy, audit, or risk experience.

7. Introduce the function positively

Communicate internal audit's role in improving operations and reducing risks.

8. Review and improve

Periodically review the audit function and adapt to business growth/changes.

Tax audit

A tax audit is a review by the tax authority of your business's tax returns and financial records to ensure compliance. Your business might be selected for an audit based on various factors, including perceived risk, its size, industry, the complexity of its transactions, significant refund claims, or simply at random.

How to prepare for a tax audit

Stay organised year-round

Keep financial records, including tax filings, receipts, and invoices, well-structured and accessible.

Proactively check your compliance

Regularly review tax obligations to identify and resolve potential issues early.

Know your rights and responsibilities

Understand auditor requests and your obligations during the audit process.

Engage professionally with tax authorities

Be prompt, respectful, and cooperative for a smoother process.

Compliance audit

A compliance audit verifies your business adheres to specific rules and requirements, such as industry regulations, grant conditions, or internal policies, extending beyond standard tax or company laws.

Why it matters for your business

Avoid risks & penalties

Ensures adherence to rules, preventing legal issues, fines, and funding losses.

Maintain eligibility

Secures permits, certifications, and funding by ensuring regulatory adherence.

Build trust & reputation

Demonstrates accountability and transparency to clients, partners, and regulators.

Auditing your external auditors

Selecting and overseeing your external auditor is a critical governance responsibility. While audits provide vital assurance, it's important to understand what constitutes a quality audit and what to look for in your auditors. A competent and independent external auditor is expected to:

- Maintain strict independence, ensuring unbiased assessments.
- Plan and perform audits with scepticism and thoroughness.
- Understand your business, industry, and internal controls.
- Adhere to auditing standards.
- Assess misstatement risks in financial statements.
- Obtain sufficient, reliable evidence.
- Communicate independent opinion on financial statements.
- Report key findings and control weaknesses.

Required qualifications of an external auditor

Recognised professional accounting designation (e.g., certified public accountant, association of chartered certified accountants, chartered accountant).

Valid local registration/licence with professional bodies.

Demonstrable independence and strict ethical codes.

Relevant experience auditing similar organisations in your industry.

Adequate resources (staff, technology, time) for thorough audits.

Proficiency in applicable accounting and auditing standards.

Red flags to look out for in an external auditor

Be alert to potential issues that might compromise audit quality or independence:



Lack of independence

Close ties or conflicting services.



Insufficient resources/experience

Inadequate staffing or industry expertise.



Poor business understanding

Failure to grasp operations or industry risks.



Superficial procedures

Lack of scepticism, reluctance to investigate issues.



Poor communication

Untimely updates, unresponsiveness, unclear reporting.



Improper registration/licensing

Not in good standing with regulatory bodies.



Resistance to transparency

Unwillingness to discuss findings or address concerns.



History of poor quality

Negative findings from regulatory or peer reviews.

Preparing for your external audit: A partnership

An external audit verifies financial accuracy through a partnership between management and an independent auditor. Success relies on both parties fulfilling their distinct roles.

Management role

Management holds primary responsibility for the company's financials, including:

- Preparing accurate financial statements.
- Maintaining effective internal controls.
- Providing full access to records and staff.
- Implementing audit recommendations.

Auditor's role

The auditor provides an independent opinion on financial statement accuracy. That opinion can either be

- **Unmodified (clean) opinion:** Financial statements are correct.
- **Qualified opinion:** Mostly correct, with a specific issue noted.
- **Adverse opinion:** Statements cannot be trusted.
- **Disclaimer of opinion:** Insufficient information to form an opinion.

Management accounts: the foundation for an audit

Management accounts are internal financial reports used for proactive decision-making and monitoring financial health. In contrast, **audited accounts** are the final, formal version of this information, verified by an independent expert for external stakeholders.

The external audit process is, in effect, a formal check on the accuracy and reliability of the data you have been tracking all year in your management accounts. Here are the key differences between management accounts and audited accounts:

Feature	Management accounts	Audited accounts
Purpose	Internal planning, control, and performance tracking.	External accuracy, compliance, and stakeholder assurance.
Primary users	Internal (owners, management, team).	External (regulators, investors, banks).
Frequency	Monthly or quarterly.	Annually (year-end financial statements).
Focus	Forward and backward-looking; performance trends, forecasts.	Primarily backward-looking; historical financial position.

Key components of management accounts

Profit and loss (income statement)

Details income and expenses over a period, showing net profit or loss.

Balance sheet

A snapshot of assets, liabilities, and owner's equity at a specific point in time.

Cash flow statement/forecast

Tracks cash movement in and out, critical for managing daily operations and liquidity.

Key performance indicators (KPIs)

Measurable values assessing business objectives, like sales growth or transaction volume.

Budget variance analysis

Compares actual performance against the planned budget, highlighting variances for corrective action.

Analysis and commentary

Provides explanations and insights into financial figures, aiding informed decision-making.

6-step guide to getting audited

1

Engage a qualified auditor

Select an independent, licenced audit firm and sign a formal engagement letter (2-4 weeks).

2

Prepare draft financials based on your management accounts

Compile complete financial reports following applicable accounting standards (2-6 weeks, depending on complexity).

3

Compile supporting documentation

Gather all bank statements, invoices, contracts and account reconciliations (1-3 weeks, ongoing).

4

Facilitate the audit process

Provide auditors with full access to records, facilities and staff (3-8 weeks, depending on scope).

5

Review audit findings

Discuss proposed adjustments and recommendations before finalising (1-2 weeks).

6

Approve and issue final reports

Have the board approve the audited statements and receive the signed report (1-2 weeks after review).

Audit readiness quick fix checklist (gaps to close before audit)

Addressing common issues beforehand makes the audit more efficient and less costly:

Review each item on this checklist at least 60 days before your scheduled audit.

Assign responsibility for each area to specific team members and set deadlines for completion.

Don't wait until the last minute - proactive preparation saves time, reduces stress and minimises audit costs.

Click here to download

Be ready for audit with our month end close audit checklist

Click here to download monthly close audit checklist

Leveraging your audit results

Your external audit is a key milestone. Strategically using its outcomes can drive credibility, efficiency, and growth.

How to use your audited financial statements:



Share with banks, investors, and suppliers to build trust and secure favourable terms.



Submit to government and regulatory bodies as required.



Use as a baseline to monitor growth, profitability, and financial health.



Review notes for insights on risk areas and accounting policies.

Understanding your auditor's opinions

The auditor's opinion summarises their conclusion on your financial statements. They can either be:

1

Unmodified (clean) opinion

The best outcome: financial statements are presented fairly, providing the highest assurance to stakeholders.

2

Qualified opinion

Mostly correct, but with a specific issue (e.g., missing information or a minor error). Requires fixing or explanation of that part of your reporting.

3

Adverse opinion

Serious problems exist; the financial statements cannot be trusted. A major red flag, it can lead to a loss of confidence from investors and banks.

4

Disclaimer of opinion

Auditor could not gather enough information to form an opinion due to missing critical data or access issues.

If you receive a modified opinion, act quickly: discuss with your auditor and work with your finance team to correct the problem before your next audit.

How to use your audit management letter

After completing your external audit, the auditor may issue a management letter. This document provides important internal feedback that is separate from the official audit opinion, but equally valuable.

What it contains

Findings on internal control weaknesses, inefficiencies, or risks that do not alter the audit opinion but require attention.

Its purpose

To help improve processes, strengthen internal controls, and reduce operational or compliance risks. It is a roadmap for internal improvement.

Why it matters

It enhances internal controls, mitigates risks, drives actionable improvement plans, and demonstrates strong governance to all stakeholders.

To make sure you properly implement everything mentioned in the letter, it is recommended that you use an **audit recommendation tracker**. This helps you systematically manage each recommendation and ensure that follow-up actions are completed.

Setting up audit recommendation tracker

Implement a structured tracking system to record audit recommendations, assign responsibility, set deadlines, and monitor progress. This demonstrates accountability and drives continuous improvement.

What to include in your audit recommendation tracker

A simple spreadsheet can effectively track audit findings and recommendations. Key columns to include are:

Recommendation reference

A unique number or code.

Detailed description of issue

Clear summary of the issue.

Agreed management action plan

Specific corrective action.

Responsible person/role

Individual or team accountable.

Target completion date

Realistic deadline.

Current status

Track progress (e.g., open, in progress, completed, verified).

Date completed/verified

When action was implemented and confirmed.

How to manage the tracker effectively



Assign ownership

Assign a dedicated person (e.g., Finance Manager or internal auditor) to maintain the tracker.



Regular reviews

Review progress regularly during management and/or audit committee meetings.



Track deadlines

Follow up on overdue actions and ensure accountability.



Report updates

Report updates to the board and, if needed, to your auditors during the next audit cycle.

Preparing for funding: investor and lender documentation readiness for organisations

Securing external funding, whether from investors or lenders, requires thorough preparation.

Being 'documentation ready' demonstrates professionalism, transparency and financial discipline, significantly increasing your chances of success, especially in LMIC environments where due diligence is often rigorous.



Why investors and lenders scrutinise audited reports

Audited financial statements are crucial for due diligence because:

Independent verification

Provides objective, third-party assurance on your organisation's financial position and performance, offering crucial reliability.

Risk assessment

Enables funders to better assess creditworthiness and investment risk, considering local economic conditions.

Financial discipline

Shows robust record-keeping and commitment to financial governance, indicating a well-managed business.

Credible basis

Offers a verifiable foundation for evaluating business plans, financial projections, and potential valuation.

Compliance signal

Indicates adherence to statutory reporting requirements, often a prerequisite for formal funding.

Packaging key documents for investors (seeking equity)

When you're looking for equity funding, investors will assess your business based on these three key areas: your business's financial health, its operational maturity, and your ability to manage risks. Your investor package should include:



Financial Projections

Detailed 3-5 year financial forecasts to show your growth potential.



Capitalisation Table

A clear breakdown of your company's ownership structure



Management Team Profiles

Brief biographies highlighting their relevant experience and track record.



Legal & Compliance Documents

Up-to-date business registrations, licences, permits, and tax clearance certificates.



ESG Statements

Your commitment to environmental, social, and labour standards.



Audited Financial Statements

Your past 2-3 years of audited financials to provide a transparent and verifiable track record of your performance



Business Plan

A concise plan outlining your market, business model, and competitive advantage.



Market Analysis

Evidence you understand the market and your customers' needs



Governance Policies

Key policies on anti-corruption, whistleblowing, and conflict of interest



Risk Management

Policies and plans, such as a crisis management plan and data protection policy,

Packaging key documents for lenders (seeking debt)

Lenders prioritise your repayment ability and collateral. Your debt package must demonstrate financial health and responsibility, and should typically include:

Loan application / proposal

State loan purpose, amount, use of funds, and repayment terms.

Audited financial statements

2-3 years of statements to assess historical performance, cash flow, and balance sheet.

Credit history information

Business/personal credit reports and existing bank relationships.

Collateral details

Documentation for assets offered as security, including ownership and valuation reports.

Current debt schedules

A list of all existing loans, outstanding amounts, and repayment terms.

Cash flow statements & projections

Historical and future projections showing capacity for debt service obligations.

Proof of compliance & registration

Copies of business licences, permits, and tax compliance certificates.

Download our comprehensive lender and investor checklist to ensure your application stands out and meets all lender requirements.

Click here to download your lender and investor checklist

Partner due diligence and selection for audit compliance

Why is it important to conduct checks on all external partners I work with?

To ensure all external partners entrusted with funds or project responsibilities are reliable and accountable.

To provide defensible documentation and a transparent process for partner selection in the event of an internal or external audit.

Help mitigate financial risk, prevent fraud, and ensure that funds are used effectively.

Donors or auditors often expect a clear policy for how partners are vetted before funds are disbursed.

Scope

Applies to implementing partners, sub-recipients, suppliers and consultants engaged through organisational or donor funds.

Relevant for both restricted and unrestricted funding.

- **Unrestricted funding** is money with no specific strings attached. You can use it for anything your organisation needs, such as rent, salaries, or other general operating costs.
- **Restricted funding** is money that a donor gives for a very specific use. You must spend this money exactly as the donor intended.

Evaluation criteria and process

1. **Legal registration and compliance with local regulations**

   Verification that the partner is legally registered and adheres to all relevant local laws and regulations.

2. **Financial capacity and audited accounts**

   Assessment of their financial stability and ability to manage funds, typically verified through audited financial statements.

3. **Operational capacity and technical expertise (delivery capacity)**

   Evaluation of their ability to execute project activities, including staff, resources, and relevant experience.

4. **Past performance or references**

   Review of their track record and feedback from previous engagements to gauge reliability and effectiveness.

5. **Alignment with ethical standards and safeguarding policies**

   Commitment to human rights, anti-corruption, and protection of vulnerable populations. This includes having robust policies such as: Child Protection Policy, Protection from Sexual Exploitation, Abuse, and Harassment (PSEAH) Policy, Anti-Fraud and Corruption Policy, Whistleblowing Policy and Data Protection Policy

Steps for conducting due diligence

1 Initial Risk Screening

Use of risk-based checklists, reference checks, past audit findings

2 Documentation Review

Certificates of incorporation, tax clearance, bank letters, policies

3 Financial Assessment

Review of latest audited financials, funding sources, internal controls

4 Capacity Verification

Interviews, references, or site visits if required

5 Risk Rating and Recommendation

Classification into low, medium, or high risk with justification based on findings

6 Approval and Documentation

Partner clearance and profile creation in financial systems

Documentation of approval process - memos, meeting notes, signatory sheets

Filing in audit-ready format (physical and/or digital with clear naming conventions)

7 Monitoring and Periodic Review

Ongoing performance and financial monitoring

Annual or project-based re-diligence for longer-term engagements

Triggered reassessments in response to red flags, poor performance, or operational changes

Resources

All resources mentioned throughout this module are designed to support your learning journey. You can download comprehensive guides, templates and checklists by clicking the provided links on respective slides. Additionally, all resources can be accessed through our online portal for future reference. These materials are regularly updated to reflect current lending and investment trends, ensuring you always have the most relevant guidance for preparing your business documentation. For personalised assistance with any of these resources, contact information for our advisory team is included in each downloadable package.

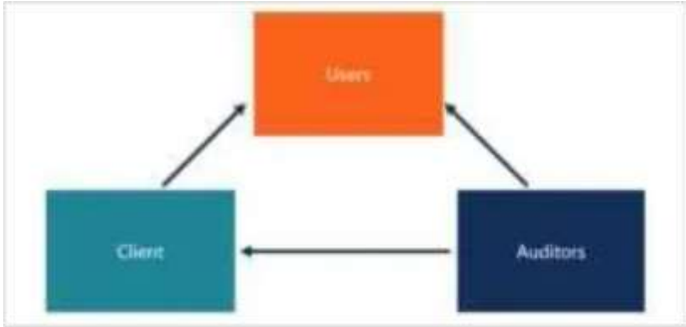
Links and downloadable PDFs



SAPConcur

Understanding the Purpose and Benefits of External Audi

An external audit provides management, investors, and lenders confidence that financial reporting presents an accurate view of the company's financial



Corporate Finance Institute

Auditor's Repor

An independent Auditor's Report is an official opinion issued by an external or internal auditor as to the quality and accuracy of the

Audit readiness checklist

Audit Readiness Checklist:	
Area	Specific Task
General Ledger & Financial Statements	Verify all general ledger accounts are closed and ba
	Prepare final Board-approved financial statements (
Cash & Bank	Reconcile all bank accounts up to the period-end.
	Investigate and document all outstanding reconcilin
	Verify cash in transit and petty cash balances.
Accounts Receivable & Revenue	Generate an up-to-date aged receivable listing.
	Review aging report for potential bad debts and mal

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Month close audit checklist

Task ID	Category	Task Description
I.	Core Accounting & Reconciliation	
GL-01	Core Accounting & Reconciliation	Ensure all significant financial t
GL-02	Core Accounting & Reconciliation	Formally close the General Le
GL-03	Core Accounting & Reconciliation	Reconcile GL control accounts
II.	Cash and Bank	
CB-01	Cash and Bank	Reconcile all company bank ac
CB-02	Cash and Bank	Investigate, document and follo

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SME investment lending documentation checklist

Loan Document Checklist:

DOCUMENT	DETAILS
Loan Application/Proposal	Amount, purpose, use of funds, repayment terms
Audited Financial Statements	Last 2–3 years of performance data
Credit History	Business and possibly personal credit reports; pro

Click here to check investment lending documentation checklist