ZAZEN TAX

Audit Readiness

About an hour to work through, and it is worth doing a full year before the first audit, because the fixes are measured in months and the opening balances get audited too.

Company .... **Year end** .... **Likely first audit year** ....

An audit does not test whether the numbers look right. It tests whether they can be evidenced: every balance to something outside the ledger, every judgment to a stated basis, every cut-off to a document with a date on it.

1. Do you actually need one — about 10 minutes

- [ ] **Score the thresholds against your last two year ends**
  An audit is required once the company exceeds two of three for two consecutive years: £15 million turnover, £7.5 million balance sheet total, 50 employees. These are the raised limits in force from 6 April 2025.
- [ ] **Check the group position**
  A small company inside a group that is not small can still need an audit. The test runs on the group.
- [ ] **Check who can demand one anyway**
  Shareholders holding 10 per cent can require an audit, and some facility agreements and investors simply insist, whatever the size.

2. A balance sheet that proves itself — about 15 minutes

- [ ] **Every account reconciled monthly, support filed**
  The Month-End Close Checklist is the machine that produces this. If the close is loose, fix that first.
- [ ] **Revenue recognition written down and applied**
  With cut-off provable: the last invoices of the year and the first of the next, each in the right year.
- [ ] **Debtor recoverability evidenced**
  Post year-end receipts are the cleanest evidence. A provision basis for what has not paid.
- [ ] **If you hold stock, count it properly**
  A counted, costed, cut-off stock figure. Auditors attend counts; a first audit with no count history is a qualification risk.

3. Systems and evidence — about 10 minutes

- [ ] **An audit trail on the ledger**
  Who posted what, when, with journals approved by someone other than the poster where the team allows.
- [ ] **Approvals in writing**
  Spend, payroll changes, write-offs. Verbal approval is no approval by audit standards.
- [ ] **Related-party transactions listed**
  Director loans, intercompany, the founder's consultancy. Disclosed and at arm's length, or explained.

4. The judgment areas — about 10 minutes

- [ ] **Provisions and accruals with a stated basis**
  A method that survives the question 'why this number and not another'.
- [ ] **Depreciation policies that match reality**
  Asset lives reviewed, not inherited from the first year's software defaults.

- [ ] **Going concern: a twelve month forecast from sign-off**
  From the date the accounts are signed, not the year end. With the downside case, and the facility headroom shown.

5. The year before   about 15 minutes

- [ ] **Appoint the auditor months before year end**
  They will want to attend the stock count and review systems before the year closes, not after.
- [ ] **A pre year-end review of the judgment areas**
  Agree the treatments while there is time to change course, not in the sign-off meeting.
- [ ] **Brief the team**
  Auditors ask people, not just files. A team that knows why the process exists answers better than one that was surprised by the visit.
- [ ] **Fix the prior year**
  Opening balances get audited on a first audit. The year before the first audit year has to hold up too, which is why this list runs early.

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