

Audit Prep for Funds: Key Steps to Ensure Timely and Accurate Financial Reporting

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As year-end approaches, it's essential to follow certain best practices to ensure a smooth audit process for your organization. If it is a fund's first audit, becoming knowledgeable about the process and ensuring that management is organized and understands what to expect is of the utmost importance.

The annual audit should not be approached as just another compliance exercise. On the contrary, a fund's financial statement audit can provide a clear roadmap for improving its financial reporting process and building stronger account and entity-level controls.

Most importantly, preparing for the audit is a critical step in meeting deadlines for distributing audited financial statements to investors and other stakeholders. A fund's investors and key stakeholders rely on the audited financial statements to guide their decision making regarding the fund. So going into the process with knowledge and preparation is key to ensuring the audit goes smoothly and is completed on time.

Meet with the Fund's Auditor

A critical first step is setting up a meeting with the fund's auditor in advance of the fieldwork. This is the time to receive information about which types of documentation will need to be provided to the auditors. While a fund's administrator will provide most of the required schedules and documentation, the investment firm has the responsibility if these tasks are carried out in-house. For those who have outsourced their accounting functions, ensure the expected timing of the audit aligns with the availability of the external fund administrator.

Bear in mind that even when the accounting function is outsourced to an external fund administrator or other third party, the fund management retains responsibility for the accuracy and integrity of the financial statements.

At the meeting, inform the auditor about any significant events or changes that occurred during the year, such as amendments to fund documents, capital activity, fund performance, new investments, and changes in internal controls. It's also an opportunity to discuss the timing of audit fieldwork and completion.

It is also recommended that funds take the time to ask their auditors if any new accounting standards have been released that will impact the fund's reporting or audit process. For instance, the Financial Instruments – Credit Losses (Topic 326) update (ASU 2016-13), effective for privately held companies from January 1, 2023, replaced the incurred loss model with the current expected credit loss (CECL) methodology. While CECL may not significantly impact investment funds with assets reported at fair value, it could affect the evaluation of collectability for receivables in firms such as investment management companies.

Another relevant update is ASU 2022-03, which clarifies fair value measurement for equity securities with contractual restrictions prohibiting their sale. This standard introduces new disclosure requirements and became effective for fiscal years beginning after December 15, 2023, for public entities; it will become effective after December 15, 2024, for other entities.

Obtain the Auditor's Document Request List

Auditors typically provide a year-end request list, also known as a "Prepared by Client" (PBC) list, detailing the schedules and documents they need for the audit. Request this list well before the fiscal year-end. Understanding these requirements early will help funds stay organized and keep track of the necessary items during their year-end close.

Funds that outsource to a fund administrator should share the PBC list with them and agree on a timeline for preparing any audit-related schedules. Consider each schedule carefully, and if any seem particularly time-consuming, ask the auditor if they can obtain the same information from another source.

For repeat audits, saving the schedules and documents from the previous year can be helpful. Making notes on how reports were generated from the fund's accounting system can save time, especially if there's turnover in the fund's accounting team.

Review Schedules Before Submission

Before submitting any schedules or documents to the fund's auditor, ensure they reconcile with the trial balance and internal financial statements. For example, if an accrued expenses schedule that doesn't align with your trial balance is provided, it could lead to confusion, delays and additional costs.

GAAP Financial Statements

Ensure your financial statement templates align with U.S. GAAP. The primary guidance for alternative investment funds is the ASC Topic 946 Financial Services – Investment Companies. Utilize the annually updated AICPA's *Investment Companies – Audit and Accounting Guide* and FSP Section 12,000 *Checklist Supplement and Illustrative Financial Statements for Investment Companies*. While this technical practice aid is not authoritative, the checklist is a helpful tool for reporting on investment funds and includes references to the applicable authoritative guidance.

Designate a Point-of-Contact

Throughout the audit, auditors will likely need to ask follow-up questions and request additional information. Designating one person as the main point-of-contact for audit-related matters ensures timely responses and promotes an efficient audit process. Regular status meetings—weekly or bi-weekly—between management and the audit team can help resolve issues and track progress.

Expedite Bank, Custody and Other Confirmations

Auditors typically request confirmations from banks on account balances for significant cash accounts, as well as confirmations for investments and capital activity. Ensure that all paper or electronic confirmations are prepared and submitted as close to the confirmation date as possible, ideally within the first week of January. Prompt handling of confirmations minimizes the risk of errors and delays.

Consider Early Testing or Interim Procedures

An independent audit requires that the auditors' testing procedures are performed without involvement by the fund, in order to preserve the element of independence. However, asking if any testing or selections can be done in advance is acceptable. Many auditors perform interim testing covering the first three quarters of the year, which can include transactions like investment purchases, sales, and capital activity. Interim procedures can help identify potential issues before year end and reduce the burden of last-minute surprises.

Valuation of Private Investments

Valuing private (or "level 3") investments is a critical area of the audit, as it often involves significant judgment and uncertainty. Auditors expect management to provide a comprehensive year-end valuation package for all private investments. This should include detailed descriptions and support documentation, and explanations of any changes in methodology or valuation inputs.

Management can reference the AICPA's accounting and valuation guide, which

provides useful guidance for fund managers, auditors and valuation specialists on the accounting and valuation of private investments.

Conclusion

Successful preparation for an annual audit requires continuous efforts from management to maintain an effective financial reporting system. The audit process is a collaborative effort, and by planning ahead and following the best practices outlined above, funds can ensure a smoother and more efficient audit process.

For further information and guidance, please reach out to [Alicja Mierzwa](#) or your Anchin Relationship Partner.