

How to Prepare for an ATO Audit

Receiving a notification from the Australian Taxation Office (ATO) requesting a tax audit for your business can be a daunting experience.

In Australia, the ATO usually audits businesses every 3 years or if their system triggers a warning that there may be misconduct. Audits are becoming more common with the ATO's increased activity and advanced data-matching software.

The key to navigating this process smoothly and alleviating stress is proper preparation.

Use the list below as a comprehensive guide to preparing for an ATO audit and ensure you get all the crucial details.

01. Meet with the Auditor Early

Before delving into the preparation process, it's essential to clearly understand why the audit is being conducted and its scope. Therefore, one of the critical initial steps is to establish early communication with the auditor. During this meeting, outline any key changes in your business, significant or unusual transactions, and matters that might impact the audit.

This includes issues related to internal controls, fraud, and legal or insurance matters. Addressing these matters early allows relevant documentation to be maintained and reviewed promptly.

Henceforth, maintain open and transparent communication with your auditor throughout the process. Designate a point of contact within your organisation responsible for coordinating with the auditors and clearly communicating the timeline, expectations, and deliverables.

02. Establish a Timetable

Set up a clear timetable with key deadlines and dates, such as information delivery and board or committee meetings. Progressive deadlines should be established to focus everyone's efforts and ensure a smooth audit process.

03. Request a Requirements List

The auditor may provide a detailed list of requirements to facilitate the audit process. This list includes documents and information needed to audit your financial statements. If you don't receive one, do not hesitate to request it. Ensure that you have everything prepared and ready before the audit commences.

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04. Staff Availability

Try to avoid scheduling key staff members' time off during and immediately after the audit. While auditing your financial statements, auditors may request additional information, including supporting documents and explanations. Scheduling brief status meetings and maintaining a joint 'outstanding list' can help manage progress and ensure everyone is on the same page during the audit.

05. Keep Accurate Records and Utilise Accounting Software

To ensure your financial records are accurate and up-to-date, it's crucial to keep accurate documentation and utilise accounting software. This not only helps in meeting compliance requirements but also simplifies the audit process.

06. Double-Check Entries

Review your entries to ensure their accuracy and compliance with regulations. Identifying and correcting errors early can save time and prevent potential issues during the audit.

07. Keep Organised Records Dating Back Five Years

The ATO may request records dating back five years. Therefore, keeping organised records, including financial statements, receipts, and other relevant documentation, is essential. Grouping the business activities by financial years allows for more accurate breakdowns of information.

08. Review Internal Controls

Auditors often focus on evaluating the effectiveness of internal controls within an organisation. Take the time to review and assess your internal control systems, financial policies, procedures, and segregation of duties. Proactively address any areas that may require improvement or additional documentation.

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09. Reconcile Accounts

Perform a thorough reconciliation of your financial accounts, ensuring you have supporting documentation available to substantiate reconciliations. This is especially important in areas involving estimates and judgment.

10. Address Previous Audit Findings

If your organisation has undergone previous audits, it's crucial to address any findings and recommendations from those audits. Take the necessary steps to rectify identified issues and properly implement suggested improvements. Demonstrating your commitment to continuous improvement can positively impact the current audit process.

Make Your Audit As Seamless As Possible

Preparing for an ATO audit doesn't have to be a daunting task. Proper planning can become an integral part of your operational processes, minimising additional demands on your resources.

Understanding the purpose and scope of the audit, meeting with auditors early, and ensuring your records and internal controls are in order can help you confidently navigate the process and alleviate stress.

Proper preparation is the key to ensuring the integrity of financial information and avoiding potential legal and financial penalties.

Get in touch

At AFP Accounting, Tax and Business Advisory, we understand the complexities and nuances of various audits. Our expertise allows us to guide our clients through the auditing process, ensuring clarity, compliance, and improvement across all aspects of their operations.

If you would like professional assistance in preparing for an audit, AFP Accounting can provide you with expert guidance.

Contact us at enquiries@afpaccounting.com.au or call (02) 7804 1849