

# **GUIDE TO FINANCIAL COMPLIANCE FOR SMALL BUSINESSES**



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## **Abstract**

Financial compliance is one of the most important responsibilities for small business owners. It ensures that your business is following the laws and regulations related to taxes, payroll, invoicing, and recordkeeping. This guide is designed to help small businesses understand and manage their financial compliance in a simple and practical way. From learning about key tax requirements to setting up a solid bookkeeping system, this guide covers everything you need to stay on the right track. It also highlights common invoicing mistakes that many businesses make and how to avoid them.

You'll learn how to manage employee payments correctly, keep accurate records, and prepare for audits. We also explore how modern accounting software can make the compliance process easier and more efficient. Whether you're just starting your business or looking to improve your current processes, this guide gives you the tools and knowledge to handle your financial duties with confidence.

Staying compliant not only helps you avoid fines and penalties—it also builds trust with your clients, employees, and government bodies. This guide is a step-by-step resource for long-term financial health and legal peace of mind.

## **Getting Started**

Running a small business comes with many responsibilities, and managing your finances properly is one of the most important ones. Before diving into the world of financial compliance, it's essential to understand what it means and why it matters. Financial compliance simply means following all the laws and regulations related to how your business handles money. This includes paying taxes correctly, keeping accurate records, sending proper invoices, and managing employee payments.

In this guide, we'll break down these tasks in simple steps to help you stay organised, avoid costly mistakes, and run your business smoothly. You don't need to be a financial expert—just willing to follow clear guidelines and make use of helpful tools.

To get started, gather your current financial documents, review your invoicing and payroll methods, and make note of any areas you feel unsure about. Whether you're a solo entrepreneur or managing a small team, this guide will help you build a strong foundation for financial compliance and long-term success.

## **1. What rules and taxes do small businesses need to follow?**

Taxes are a cost of doing business, and small businesses face federal, state, and local taxes. However, small businesses may benefit from special tax deductions and credits. Here is what you need to know about taxes if you run a small business.

## Types of Small Business Taxes



Small businesses may be subject to various taxes on both the federal and local levels. These taxes may include the list below, though every small business may not need to pay each of these taxes depending on where they are located and the nature of their business.

### Income Tax

All businesses, with the exception of partnerships, are required to file a federal income tax return each year.<sup>1</sup> Partnerships must only file information returns (Form 1065) instead; this is because partnership income is passed through to the partners, who are taxed on it individually.<sup>2</sup> The type of tax return that's required varies, depending on how the business is legally structured:

- Sole proprietorships file either a Form 1040 or 1040-SR, along with a Schedule C, or Schedule F in the case of a farm business.
- Individual partners in a partnership also must file a Form 1040 or 1040-SR, as well as a Schedule E. The same is true of individual shareholders in S corporations.
- C corporations and S corporations must file a Form 1120 or 1120-S, respectively. The 1120-S form is also an information return; the S corporation doesn't pay federal taxes but passes that obligation on to its individual shareholders.

The filing requirements and tax obligations for a limited liability company (LLC) depend on how it was established. The requirements vary by state, and an LLC filing service might help business owners navigate these ins and outs. LLCs may be set up as partnerships, corporations, or as “an entity disregarded as separate from its owner” (meaning that the owner is taxed as an individual, much like a sole proprietor).

### **Self-Employment Tax**

Sole proprietors and individual partners in a partnership are also subject to self-employment tax for Social Security and Medicare and must attach Schedule SE to their 1040 or 1040-SR form.<sup>5</sup> The self-employment tax rate is currently 15.3%, which includes 12.4% for Social Security and 2.9% for Medicare.

### **Employment Tax**

Sole proprietors, partnerships, and C or S corporations are all subject to employment taxes if they have employees.

Employment taxes include Social Security and Medicare taxes, for which employees and employers each pay a portion. They also include the income withheld from an employee's pay to cover their income taxes. Finally, they include unemployment taxes (FUTA), which the employer pays in their entirety.

Except for FUTA, employment taxes are filed using Form 941, 943, or 944. FUTA taxes are filed with Form 940.

### **Excise Tax**

Sole proprietors, partnerships, C corporations, and S corporations may all be subject to excise taxes.<sup>7</sup> An excise tax is a tax on specific goods and services, such as various types of fuels, air transportation, certain vaccines, sport fishing gear, and even indoor tanning services.<sup>9</sup>

Excise taxes can be imposed by both the federal government and the states. Depending on the good or service involved, the payer may be the manufacturer, retailer, importer, or consumer.<sup>10</sup> Some excise taxes, referred to as sin taxes, are levied with the intention of discouraging certain frowned-upon activities or at least making them more expensive. For example, most states impose an excise tax on cigarettes.

Companies file their excise taxes on one of several forms, depending on what is being taxed. Those are Forms 720, 730, 2290, and 11-C.

### **Sales Tax**

Sales taxes are imposed by most U.S. states, as well as many counties and cities. The United States does not have a national sales tax.

Small businesses may be required to collect sales taxes, and then pass them along to the relevant taxing authority if they sell taxable goods or services. What constitutes a taxable good or service and the amount of the tax will vary from one place to another, as will tax filing deadlines.



For a small business that isn't already collecting sales taxes, the first step is for it to register with its state taxing authority.

### Other State and Local Taxes



States and local governments can impose a wide variety of other taxes that small businesses need to be aware of. They include:

- **Income taxes.** Sole proprietors pay state and local income taxes (if any) as part of their personal income taxes, as do individual partners in partnerships and shareholders in S corporations. C corporations and S corporations file corporate tax forms and are taxed on that basis, although whether and how S corporations are taxed varies from one state to another.<sup>157</sup> Partnerships also may or may not be taxed, depending on the state.<sup>16</sup>
- **Property taxes.** Businesses that own buildings, land, or other real property may be taxed on it on the state and local levels, just as individuals are. In addition, some state and local governments tax tangible personal property, which in the case of a business might mean machinery, office equipment, or inventory, for example.<sup>17</sup>
- **Franchise taxes.** Roughly a dozen states impose a franchise tax on businesses of various kinds (not specifically franchises) that want to do business in that state.<sup>18</sup>
- **Business license fees.** The federal government, as well as many state and local governments, require certain types of businesses to obtain licenses and pay the appropriate fees for them—in effect, a type of tax. According to the U.S. Small Business Administration, "States tend to regulate a broader range of activities than the federal

government. For example, business activities that are commonly regulated locally include auctions, construction, and dry cleaning, farming, plumbing, restaurants, retail, and vending machines."

### **Estimated Taxes**

Estimated taxes are not separate taxes in their own right; they are a way of paying other taxes throughout the year. Sole proprietors, C corporations, and S corporations, as well as individual partners in partnerships and individual shareholders in S corporations, may all need to file estimated taxes, using either Form 1040-ES in the case of individuals or Form 1020-W in the case of corporations.

Estimated taxes are filed quarterly rather than annually, and failure to pay them, or to pay enough in total, can result in underpayment penalties once the individual or corporation files their annual tax return.

### **How to File Small Business Taxes**

Filing small business taxes is a three-step process:

- Collect the information you need (again, preferably on an ongoing rather than last-minute basis).
- Determine which forms apply to you. You can find a list of small business forms and publications on the IRS website.<sup>35</sup>
- File by the appropriate deadline.

For example, let's say you're a small business in Washington. The Department of Revenue's monthly B&O tax returns are due on the 25th of the following month, though you may be eligible to file quarterly. To file your taxes, you'll have to be registered with the DoR. You'll then need to have your sales and collection information on hand, and then navigate the DoR site.<sup>36</sup>

#### **Small Business Taxes vs. Large Business Taxes**

Small businesses and large businesses face distinct considerations when it comes to taxes due to differences in size, structure, and resources. Here are some key differences.

#### **Tax Filing Requirements**

Small businesses generally file taxes using simpler forms, such as Schedule C for sole proprietorships or Form 1120-S for S-corporations. They often make quarterly estimated tax payments to avoid penalties. In contrast, large businesses typically use more complex forms like Form 1120 for C-corporations and may need to file consolidated tax returns for multiple subsidiaries, which requires more detailed reporting and compliance.

#### **Deductions and Credits**

Small businesses often benefit from deductions like the home office deduction, startup costs deduction up to \$5,000, and Section 179 deduction. Large businesses, on the other hand, can leverage more substantial deductions and credits such as research and development (R&D) credits and foreign tax credits for international operations.

## Resources/Expertise



Small businesses usually lack the firepower to put heavy resources behind tax strategy. They usually don't have dedicated tax professionals and have to instead rely on external accountants or tax software. Their limited resources can make it difficult to stay updated on tax law changes and handle complex compliance issues. Meanwhile, large businesses typically have in-house tax departments with specialists who can manage intricate tax matters and implement sophisticated tax planning strategies, especially planning future years.

## Entity Structure

Small businesses often choose entity structures like sole proprietorships, partnerships, LLCs, or S-corporations. These structures offer benefits like pass-through taxation but also involve personal liability considerations. Large businesses frequently operate as C-corporations, so they may face double taxation at both the corporate and shareholder levels.

## Compliance and Audits

Compliance requirements for small businesses are generally less stringent, though they must still adhere to tax laws and regulations. Large businesses face more rigorous compliance standards and are more prone to audits, especially if they are a public company. They must also comply with additional regulations such as the Sarbanes-Oxley Act.

### Resources for Small Business Taxes

The IRS and other taxing authorities provide numerous resources online.

For federal taxes, these IRS links would be good places to start:

- Small Business and Self-Employed Tax Center
- Small Business Forms and Publications
- Publication 334: Tax Guide for Small Business (for Schedule C filers)
- Publication 583: Starting a Business and Keeping Records

### **The Bottom Line**

It may sometimes seem as if small businesses are being taxed from every direction. However, understanding the rules can make it easier, and knowing the ins and outs of tax deductions and credits can make it less costly.

If you're a small business owner who's either too busy with other duties or uncomfortable handling these matters yourself, then hiring an accountant who is familiar with your type of business could be money well spent. As a plus, the IRS notes, "Fees charged by accountants and attorneys that are ordinary and necessary expenses directly related to operating your business are deductible as business expenses."

## **2. How can you keep your business records neat and correct?**

Keeping your business records neat and accurate is essential for running a successful and compliant business. For small business owners, good recordkeeping isn't just about staying organised—it plays a critical role in decision-making, tax reporting, and maintaining credibility with clients, suppliers, and regulatory bodies.

The first step in maintaining neat records is understanding what types of documents need to be tracked. Most small businesses deal with a range of financial paperwork such as invoices, receipts, expense claims, tax documents, payroll records, contracts, and bank statements. Keeping all these in order can seem overwhelming, but creating a simple and consistent method makes it manageable.

A strong recordkeeping system begins with choosing a format that works best for your business. Whether you use physical files or digital storage, it's important to categorise your documents clearly. Many small businesses today are shifting toward digital tools, not only because they save space but also because they make searching and sharing information much easier. Cloud-based services like Google Drive, Dropbox, or accounting platforms with built-in storage can streamline your entire process. Labeling folders clearly by date, document type, or transaction purpose helps you locate files quickly and ensures you never misplace an important document.

Embracing accounting software can take your organisation a step further. Platforms like Xero, MYOB, and QuickBooks are designed specifically for small businesses to automate and simplify financial tasks. These tools allow you to create professional invoices, automatically record



expenses, track income, and reconcile your bank transactions. Not only do they reduce the risk of human error, but they also generate helpful financial reports that offer valuable insights into your business performance. Using these platforms helps ensure consistency and can significantly cut down the time you spend updating your records.



Another important aspect of keeping your records clean is consistency. Rather than letting paperwork pile up and addressing it once a month, it's far more efficient to update your records regularly. Set aside dedicated time each week to enter transactions, upload receipts, and match payments. This habit not only keeps things organised but also reduces the chance of forgetting critical details or losing receipts.

Separating your business and personal finances is a simple but vital step in improving your recordkeeping. A dedicated business bank account and, ideally, a business credit card, will allow you to track transactions easily and avoid confusion when it comes to bookkeeping or filing your taxes. When business and personal expenses are mixed, it becomes difficult to draw a clear financial picture of how your business is actually performing.

Regular review of your records is also key to maintaining their accuracy. At the end of each month, it's a good idea to compare your recorded transactions with your bank statements to make sure everything matches. This process, known as reconciliation, helps identify any missing payments, duplicate entries, or incorrect amounts. Fixing these small errors monthly is

far easier than trying to sort through months of data during tax time or when preparing for a financial audit.

In terms of legal obligations, it's important to ensure your recordkeeping methods comply with government standards. For example, in Australia, the ATO requires businesses to keep certain financial records for at least five years. These records must be clear, complete, and accessible. Failing to meet these requirements can lead to penalties or complications during audits. Consulting with a bookkeeper or accountant can help ensure you're on the right track, especially if you're just starting out or unsure about your compliance needs.

For many small business owners, managing records can feel like a daunting task. But with the right approach, tools, and a bit of routine, it becomes much easier. Good recordkeeping not only keeps you compliant with the law but also gives you peace of mind, knowing that your business is running smoothly and efficiently. Taking time to establish neat and correct records today can save you countless hours and stress in the future.

### **3. What are the most common invoicing mistakes, and how can you avoid them?**

Invoicing usually takes the backseat for entrepreneurs more involved in customer acquisition and sales. They sometimes delay sending the invoice or make calculation mistakes that can incur unexpected losses.

However, the document plays an instrumental role in generating income from sales and should not be ignored. It is best to rely on professional bookkeepers to maintain urgency and accuracy. The experts have a knack for dealing with customers and following up with them without being intrusive. They make the process streamlined and systematic while keeping all the records safeguarded.

If you plan to do it independently, here is a list of ten common invoicing mistakes that must be avoided. These tips will help you avoid the pitfalls and ensure a positive cash flow that helps you pay the bills on time.

#### **1. Preparing Incorrect Invoices**

It is human to make errors. However, inaccuracies in mentioning the total amount on the invoice or incorrectly typing the client's email address can cost the business significantly. This is why the job is left to expert Melbourne bookkeepers accustomed to sending the e-invoices without errors.

They do it organically after checking all the details effectively. It can also impact the relationship with the customers. Thus, avoiding mistakes and paying attention to all the information before pressing the send button is vital.

## 2. Forgetting to Follow Up

The clients are also busy with their hectic schedules and may forget to pay the bill, or they may choose to wait until the last day and miss the deadline. Thus, it is essential for entrepreneurs to follow up with customers a few days after the invoice is sent.

They must remind them politely about the upcoming due date and get them to pay. If the business owner needs cash quickly, they can offer a discount for early payments.

## 3. Ignoring the Breakdown of Total Cost



While sending the invoice, it is essential to provide the breakdown of the total amount. It helps the customer to understand the final cost and its individual components.

It eliminates the risk of confusion and getting emails for breakdown requests that delay incomings for the business. Customers need this information for their financial records and reporting purposes, and it must be provided upfront.

## 4. Delaying Invoicing

Many small business owners are occupied with a wide range of responsibilities, and it makes them forget about invoicing instantly. However, sending the document when the products are delivered to the customers is highly important.

For recurring payments, it is vital to fix the date for every month or quarter as per the agreement with the client. Effective bookkeeping in Melbourne will ensure the timelines are respected, and the invoices reach the customer's inbox on time to expedite the payment process.

## **5. Forgetting to Add Discounts**

Inexperienced employees who take the responsibility of sending invoices to clients often forget to include discount information in the invoicing. Usually, sellers offer discounts for getting payments before the due date.

For example, the seller offers a discount of 10% on payment within seven days and 7% on payment within ten days. The cash discount is recorded as an expense in the books.

## **6. Sending Invoices Twice**

When small businesses do not hire a bookkeeper in Melbourne, they often commit mistakes that make the records inaccurate. Sometimes in the haste of completing tasks and managing workload, they send multiple invoices to the same client.

It can lead to ambiguity and incorrect financial records. It also affects the relationship with their clients and leads to unwanted disputes. Thus, it is essential to number the invoices and track them effectively.

## **7. Limiting the Payment Methods**

Some small business owners are unaware of the fact that the same payment method may not be favourable to all clients. While some may prefer bank transfers, others may want to use their credit cards or digital wallets.

Thus, providing them with multiple payment options is essential to complete the process quickly. The link for the payment must be incorporated in the invoice.

## **8. Adding Hidden Costs Later**

Some naive entrepreneurs think they can make a few extra dollars by adding hidden costs to the final bill. However, it is not an ethical way of functioning in the industry. Professional bookkeepers in Melbourne advise business owners to stay away from such profit-making tricks to avoid losing customers.

If the business has incurred extra costs for offering services to the customers, they must inform the customer before adding the charges to the invoice.

## **9. Ignoring Backup of Data**

Digital copies of the invoices are stored by businesses in the cloud storage to ensure information security and safeguarding. It protects the invoices from scams like making fake invoices or false billing.

Going paperless is also an eco-friendly way of conducting business and helps in boosting sustainability by reducing waste. Cloud storage keeps the data safe in case of an unexpected event or breakdown of computers. These bills are needed for recordkeeping by bookkeepers.

## 10. Making An Unprofessional Invoice



Small businesses that do not hire a professional for financial management have incompetent employees preparing the invoices. They can make blunders like not using company branding on the document or missing the due date.

These invoices may also lack the courtesy to maintain cordial relations with long-term customers. Thus, it is essential to create a template or use e-invoicing to prepare a professional document that improves the credibility of the business.

### Wrapping Up

Invoicing is one of the most critical responsibilities of Melbourne bookkeepers because it helps both the seller and the buyer to track their capital. It allows them to understand the amount that has been paid and that is owed to manage finances efficiently. Thus, they must be prepared carefully with all the precautions.

## **4. What do you need to know about paying your staff the right way?**

When it comes to payroll taxes, managing the administrative tasks associated with correctly calculating and withholding payments can feel daunting enough, let alone staying current on the complex rules that govern when, how, and how much your organization needs to pay. Standardizing your organization's approach to payroll and developing a framework for reviewing and updating your procedures creates a strong foundation you need for peace of mind. The suggestions below can help you



## What is payroll compliance?

Payroll compliance refers to the processes your organization uses to ensure that it adheres to all applicable laws and regulations regarding employee wages, tax withholdings, overtime pay, benefits, record-keeping, and other aspects of pay and payroll. It also involves making sure all workers are paid correctly and on time and that all payroll taxes are reported and paid to the correct agencies by the correct due dates.

Typically, payroll compliance focuses on meeting your tax obligations, but can also touch on the following:

- Data protection. Depending on location, it matters how and to what extent your organization discloses employee data to government agencies.
- Employee classification. Correctly categorizing workers as employees or contractors has significant implications for mandatory tax withholdings and unemployment insurance contributions.
- Wage calculation. Most jurisdictions have laws to ensure that workers receive a minimum level of compensation and specific formulas for calculating pay.
- Payroll tax reporting. Depending on your organization's size and tax status, you'll pay your mandatory payroll taxes quarterly or annually.
- Pay equity. In jurisdictions that require employers to report on employee demographics and wages, collating and storing this information becomes part of payroll reporting and compliance.
- New hire registration requirements. Registering your new hires correctly helps ensure accuracy in withholding and payroll tax calculations.

## 4 common payroll compliance mistakes

Because payroll compliance requirements vary across different jurisdictions, organizations—particularly those with remote or distributed workforces—may find it challenging to develop and implement procedures that comply with all the relevant laws. When thinking about the resources you need to design an effective payroll compliance policy, consider these common mistakes.

### **Failing to stay current on rules and regulations**

From the due dates and withholding rates to forms and submission methods, the regulations that govern how organizations withhold and submit payroll taxes and other requirements for payroll compliance are many—and change frequently.

Without regular reviews to ensure compliance with the most recent requirements, your organization risks a late or incorrect filing.

### **Missing deadlines for payroll reporting**

In the US, the IRS imposes monetary penalties and charges interest for late payroll tax reporting and payments. Regulators in other jurisdictions often use similar tools to ensure proper withholding and prompt remittance of an employer's share of contributions to social security, healthcare, and insurance programs.

To avoid penalties, an effective payroll compliance system should incorporate ample time to prepare important reports and forms and multiple reminders to file and pay. Banking tools like automated withdrawals can also help.

### **Misclassifying employees and independent contractors**



Incorrectly categorizing workers as employees or contractors can impact how your organization calculates payroll tax withholdings, potentially leading to stiff consequences. In cases where the IRS believes an organization has willfully—rather than negligently—misclassified workers to avoid making social security and FUTA contributions, for example, penalties can include criminal charges.

If reviewing the Fair Labor Standards Act (FLSA) doesn't answer your questions about worker classification, consider consulting a legal expert specializing in employment. If all else fails, you can file a Form SS-8 with the IRS to request clarification directly from the agency.

### **Completing the wrong IRS form**

The IRS uses different forms to report different information, and completing the wrong one can lead to delays and penalties. You wouldn't, for example, want to report payments made to an independent contractor using Form W-2 (the wage and tax statement for employees), or report FICA taxes withheld on a Form 940 (the form for reporting employers' annual FUTA contributions).

To understand which forms your organization needs to complete—and for which employees—start with how your workers are classified, or whether you need a form for an employee or an independent contractor. This will help you understand how to report compensation paid and the necessary withholdings. Once you're clear on what to report, you can focus on matching the information to the proper IRS form. The IRS Forms & Instructions page is also helpful for finding the right paperwork.

## **The risks of payroll non-compliance**

Failure to comply with applicable payroll regulations can come with a hefty price tag. Regulators typically assess a monetary penalty that amounts to a percentage of what your organization owes. In the US, for example, the IRS may fine you up to 5% of the amount your organization owes. You'll also need to pay the affected employees any wrongly withheld or miscalculated wages directly.

The consequences may be more severe when regulators believe your organization acted intentionally to avoid paying payroll taxes. In some jurisdictions, executives and decision-makers can face criminal charges for willfully disregarding payroll laws, in addition to personal financial penalties.

## **5. How can accounting software help your business stay financially compliant?**

Maintaining financial compliance is crucial for businesses of all sizes. Accounting software serves as a vital tool in achieving this by automating processes, ensuring accuracy, and providing real-time financial insights.

### **Automated Record-Keeping and Accuracy**

Modern accounting software automates the recording of financial transactions, reducing the likelihood of human errors. Features like double-entry accounting systems ensure that all financial entries are balanced, which is fundamental for accurate financial reporting and compliance. By automating these processes, businesses can maintain precise records that are essential during audits or financial reviews.

### **Efficient Invoicing and Payment Tracking**

Timely and accurate invoicing is a key aspect of financial compliance. Accounting software streamlines the invoicing process by generating professional invoices, tracking payments, and sending reminders for overdue accounts. This ensures that revenue is accurately reported and that accounts receivable are managed effectively, both of which are critical for compliance with financial regulations.

## Bank Reconciliation and Cash Flow Management



Reconciling bank statements with internal records is essential for detecting discrepancies and ensuring that all transactions are accounted for. Accounting software simplifies this process by automatically importing bank transactions and matching them with recorded entries. This not only saves time but also enhances the accuracy of financial records, supporting compliance efforts.

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## Comprehensive Financial Reporting

Generating detailed financial reports is necessary for compliance with tax laws and financial regulations. Accounting software provides tools to create various reports, such as profit and loss statements, balance sheets, and cash flow statements. These reports offer insights into the financial health of the business and are often required during audits or when filing taxes.

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## Tax Compliance and Preparation

Staying compliant with tax obligations is a significant aspect of financial management. Accounting software assists in this area by calculating taxes owed, generating tax reports, and even integrating with tax filing systems. By keeping accurate records and providing necessary documentation, the software helps businesses meet their tax responsibilities efficiently.

## Integration with Other Business Systems

Many accounting software solutions can integrate with other business systems, such as payroll, inventory management, and customer relationship management (CRM) tools. This integration

ensures that all financial data is consistent and up-to-date across various departments, which is vital for maintaining overall financial compliance.

## **Real-Time Access and Cloud-Based Solutions**

Cloud-based accounting software offers real-time access to financial data from anywhere, facilitating timely decision-making and ensuring that financial records are always current. This accessibility is particularly beneficial for businesses with remote teams or multiple locations, as it supports consistent compliance practices across the organization.

## **Conclusion**

Incorporating accounting software into your business operations enhances financial compliance by automating critical processes, ensuring accuracy, and providing comprehensive reporting tools. These features not only help in adhering to financial regulations but also contribute to the overall efficiency and financial health of the business.

## **6. What should you do to prepare for a financial audit or review?**

Every audit requires dedicated time, precise coordination and extensive resources. Audit firms work with many clients and schedule their people and resources months in advance of the actual audit. If the company being audited isn't ready at the designated time, an audit firm's resources may not be available. This can lead to significant delays and potentially missing important debt covenant or regulator deadlines, resulting in unhappy shareholders.

There are several steps your organization can take to support a smooth and efficient audit. Below are four key audit preparation best practices:

### **1. Review The Previous Audit To Identify Risks**

The first step to prepare for an audit is to review your organization's last audit with an eye for issues cited and correct those in advance. Next, identify areas of risk. These can include accounting for complex areas such as equity and debt arrangements, revenue recognition, and IT systems and controls.

### **2. Assemble Your Internal Team And Evaluate Needs**

Companies must also take a realistic look at internal teams and determine if external help is needed. Review your staff before an audit begins to make sure the right skills and experience are in place. A key internal position needed to support an audit is that of the controller. The person in this role coordinates and manages all audit activity. If the controller doesn't have a strong skill set, then the likelihood of having issues with your audit increases significantly. In a larger organization, there may be someone who the controller designates to help offload some responsibilities.



It is also helpful to consult with your external audit partner to determine if they expect any complexities with the audit that may require seasoned external help. They may recommend using resources to deal with the complexity of highly technical accounting areas or implementing newly adopted accounting pronouncements.

The accounting department's workload is higher at the end of the year than at any other point in time. Not only are they closing the books for the year, but they're also preparing for an audit. Companies may need to bring in resources to help manage the additional workload. These additional people can take on some of the most time-consuming activities, freeing up employees to focus on audit preparation.

### 3. Set Expectations



Communication should be clear and frequent with all participants as audit preparation is underway. Communicate with the engagement team, your company team and external resources (e.g., banks and attorneys) on a regular basis. Schedule frequent status meetings between the audit firm and company personnel to determine progress and address any issues. Regularly confirm that the deliverable of a signed audit opinion on the required date is still realistic.

Request a timeline from the auditors that includes deliverables and milestones. Start with the previous listing of schedules “prepared by client.” The auditors need access to information that they will test or evaluate in accordance with their audit program. To facilitate this, they will request a number of items from the company in the form of a “prepared by client” schedule. For example, they might request accounting records, trial balances, account reconciliations, various accounting reports, significant agreements and board minutes to carry out these procedures.

Schedules should be prepared in the form requested to improve the efficiency of the audit and potentially reduce audit fees.

The goal is to minimize surprises for your company's leaders. Because regular communication is required for an effective and efficient audit process, status meetings should be scheduled in advance. This is the only way to monitor that expectations and schedules are being met and to quickly identify and resolve accounting issues. Scheduling regular communications allows your company to control the audit process, which will help control costs. Just as critical is that there is an expectation that both your company and the auditing firm will come to the meeting prepared for a productive discussion.

By having a frank conversation at the start of the audit process about expectations and issues, the audit will start off on the right track, and issues will be minimized.

#### **4. Reacquaint With And Commit To The Auditing Firm**

Hopefully, you conducted an evaluation of the firm and its work after your company's last audit (if not, schedule an annual evaluation). Review the evaluation to get reacquainted with the team, including overall quality, responsiveness, consultation process, communication habits, quality of recommendations, understanding of the company's business and, importantly, results versus expectations. An evaluation review provides an opportunity for both sides to discuss process changes or restate respective needs, priorities or expectations.

Commit to the long term with the external auditors. It's generally cost-prohibitive to switch audit firms, even when, ostensibly, it's being done to save fees. Companies will find they end up spending more, considering the time it will take a new firm to ramp up or if the new firm brings different processes or evaluations and assessments that internal staff did not prepare for. That is not counting the additional expense of time and resources to find, research, interview and select a new firm.

Effective planning in advance and consistent communication throughout the audit process can ensure that your company's audit runs smoothly and efficiently.

### **Bottom Line**

Staying financially compliant is not just a legal requirement—it's a key part of building a strong, trustworthy business. For small businesses, understanding financial compliance may seem overwhelming at first, but with the right systems in place, it becomes a manageable and even empowering process. By keeping accurate records, separating business and personal expenses, filing taxes on time, and using tools like accounting software, businesses can confidently meet their financial obligations.

Financial compliance also protects your business from penalties, improves cash flow visibility, and builds credibility with investors, customers, and partners. In today's digital landscape, there

are plenty of affordable tools and resources to support your compliance journey. More importantly, it's about creating habits that promote transparency and accountability in every financial transaction. Whether you're just starting out or looking to refine your current systems, prioritising compliance can help your business grow with stability and confidence.

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