Optimizing the audit of consolidated financial statements

A further step towards fast close

Prophix®

Inside this document

Chapter One	Introduction	3
Chapter Two	What are the benefits of a well-prepared audit?	4
Chapter Three	How to reach this?	6
	Step 1. Group structure	10
	Step 2. Local data	11
	Step 3. Currency conversion	12
	Step 4. Interco matching	13
	Step 5. Manual adjustments	13
	Step 6. Consolidation eliminations	15
Chapter Four	Conclusion	16
	About Prophix	18

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Introduction

What process should you follow to prepare for an audit of your accounts and how can a Financial Performance Platform help?

A well-prepared audit has advantages for the group, consolidation team, and auditors, including streamlined approvals and an improved fast close process.

What are the benefits of a well-prepared audit?

What are the benefits of a well-prepared audit?

For the group

The accounts are validated in a timely way and the group can perform a fast close.

For the consolidation team

Effectively prepare for the audit, free up time for analysis and manage the fees paid to the auditor and to consultants who develop special reports.

For the auditors

In light of the recent changes (rapid changes in standards, increased liability, increase in productivity required due to increased competitiveness), an optimized process is essential for accelerating audits and maintaining quality.

How to reach this?

How to reach this?

Anticipate the auditor's questions and implement a good methodology.

Anticipate the auditor's questions

What does the auditor expect from their client? Their role is to cover the risks encountered during the audit phase in order to guarantee the validity of consolidated figures and the annual report. For a consolidation, they will make sure to address the following risks:

- Existence
- Completeness
- Accuracy
- Valuation
- Cut-off
- Presentation

Furthermore, the auditor is not responsible for checking the consolidation application parameters. It is therefore important to prepare the process and to ensure that the auditor can focus on their tasks: the validation and analysis of the accounts.

How?

- By following their methodology
- By taking full advantage of the audit functionalities provided by your consolidation application

The methodology

Effective consolidation methodology follows these key principles:

- Consolidation should be viewed as accounting applied at the group level
- In practice, every consolidation-related transaction (adjustments, eliminations, etc.) should be reflected as an accounting entry in an ad hoc journal
- The individual balance sheets of the companies in the scope should be in balance throughout the whole process
- All information should be easily traceable and available to the reader

Does your consolidation application provide you with a complete view of the consolidation process?

An incomplete consolidation application will give you a view of the consolidation process before/after the process. The optimal way however is when your consolidation application provides you with insights during the process. For instance, detailing the major steps of the consolidation process, together with all data and reporting functionalities at any of these stages.

Consolidation steps for which a well-prepared audit can make the difference

The purpose of this document is to further develop the key steps of consolidation. We consider them to be key in the audit process, because:

- They are the source of the main risks for the auditor
- They are challenging to justify for the consolidator

We have identified the consolidation steps below which are further developed in this article through the risk they represent for the auditor and how the consolidator should be able to help to cover those risks and ensure an efficient audit process.

Conso content

- Determine group structure
- Local data
- Currency conversion
- Interco matching
- Manual adjustments
- Conso elimination

Risks to cover

- Existence
- Completeness
- Accuracy
- Valuation
- Cut-off
- Presentation

Step 1: Group structure

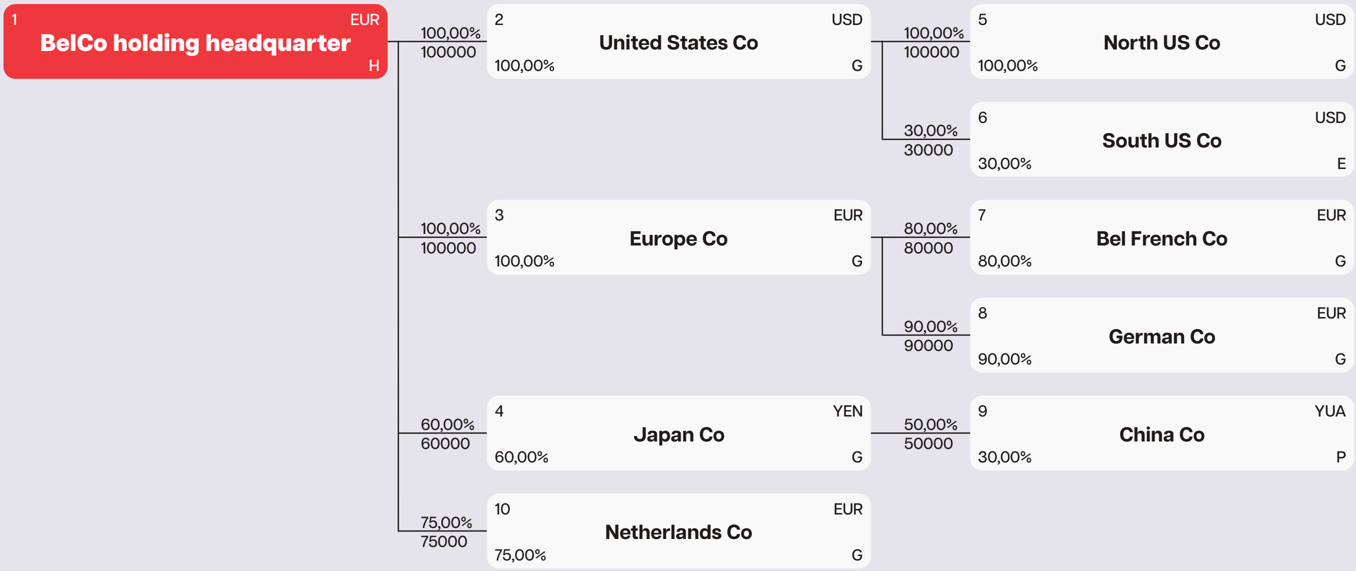
The consolidation scope is one of the first things an auditor will look at. The major risks they encounter at this stage are the existence (proof of ownership) and the completeness (are all subsidiaries identified).

The audit procedures for subsidiaries are based on risk assessment and materiality. At the planning stage, groups need to define, for each subsidiary, whether a full audit (ISA standards), a limited review (ISRE standards) or a desktop review will be performed. Close coordination with the local auditor is important.

To organize these audit procedures efficiently, the consolidation manager needs to provide the auditor with a list of all subsidiaries, their position in the scope and their details such as their currency, participation percentage and non-controlling interests. A consolidation application produces a summary of this key data under the format of a group diagram and will highlight the changes in detention.

Furthermore, a consolidation application will allow you to make a distinction between voting rights and financial rights. This is key for certain groups as the voting rights are used to determine the consolidation method, whereas the financial rights are used to determine the financial interest of the parent company.

Figure 1: Example of a group diagram



Step 2: Local data

The auditor will prefer a situation where a consolidation manual has been issued by the parent company. It gives them more assurance on the quality of the local data and less time spent on the validation of the local bundles. Validation of the local bundle includes validation of mapping and opening balance, review of audited trial balance, fluctuations, interco positions and local adjustments.

Therefore, adopting a trustworthy local bundle might help validate the accuracy of the data in an efficient way. A consolidation application will include such local bundle, ideally standard over the years, built with an accounting mind. Additionally, it will deliver the following functionalities:

- Automatic, uneditable generation of opening period
- Collection of all necessary information (even qualitative such as signing authorities, covenants)
- Quality controls

Having all this information gathered and available in the consolidation application, it also helps to provide the auditor with some additional information like:

- The mapping tables between the local chart of accounts and the group chart of accounts
- A comparison between closing balance Y-1 and opening balance Y
- A clear view of all local adjustments as they are kept separated (not automatically aggregated) and automatically managed over the years

For groups with several entities on a same ERP or accounting system, a direct integration between the consolidation application and accounting system is recommended. This ensures the auditor that no manual changes have been performed on the data. Furthermore, the consolidator will also be able to better manage the entities if the consolidation application provides various options for data collection, such as .xls and .cvs files, offline and online bundles and the integration with local systems.

Figure 2: Translation adjustment analysis

Step 3: Currency conversion

A third step we can identify in the audit process is the currency conversion. The auditor will validate:

- The valuation of the exchange rates per type: closing, average or transactional/historical
- The conversion of local bundles and the rate applied on each account
- The currency translation adjustment account in the equity

How can the consolidation manager facilitate this step? First of all, they should provide the auditor with a list of all exchange rates per currency and the type of rate applied to each account; and a converted local bundle before any other adjustment.

The auditor also needs to check the accuracy at conso level, whereas providing the following information will help them to cover the risks of accuracy and valuation:

- Details of conversion of equity and participation accounts
- Contribution by company to CTA (currency translation adjustment)
- Detailed calculation of the currency translation adjustment account (CTA) in equity: it shows all the entries having a translation adjustment and explains its calculation in detail

Working only with Excel does not provide sufficient information, especially regarding the CTA. Its recalculation is generally difficult for the auditor and as such, difficult to validate. Good consolidation tools have all these functionalities standard available.

Step 4: Interco matching

The auditor will also perform a validation of the intercompany matching, in order to check the completeness and accuracy of the information. Completeness can be achieved when the information is centralized and validated by the local auditor (in the local currency). Moreover, a visualization of the following information can be helpful for the auditor to check the accuracy of the information:

- Unmatched transactions (verify whether difference meets materiality threshold)
- Corrections performed for reconciliation (distinction made automatically between real differences)
- The eliminations of interco positions

To facilitate this process, the consolidation manager needs to provide a list of all intercompany positions – both matched and unmatched.

Thanks to this detailed list, the auditor will be able to identify potential risks of cut-off transactions and validate them.

Unmatched positions will be automatically eliminated in the same way as matched positions by the conso package.

This is a guarantee for both the consolidator and the auditor as these eliminations are available for consultation. The remaining differences from the unreconciled positions will remain on a specific account that the auditor can consult to verify that it does not exceed their audit materiality threshold.

Figure 3: Report of intercompany reconciliation

Step 5: Manual adjustments

At this stage, the auditor is facing a risk of accuracy or fraud. That's why it is important for them to analyze the manual adjustments, especially with respect to revenue.

The auditor will have to validate all adjustments from the current period as well as previous year adjustments and the way they are automatically carried forward by the system. This will be done by analyzing the reconciliation between opening and closing reserves, a report that is typically automatically generated by your consolidation application.

The consolidation manager can use the consolidation application to provide some helpful information to the auditor, so that they can quickly verify whether the data is complete, like:

- A validation report at conso level
- Cash flow statement
- Reconciliation of group and 3rd parties' reserves (also called statement of changes in equity), which is available at conso view and by entity contribution
- Full audit-trail (by company, journal, or flow)

Optimizing the audit of the consolidated financial statements is a further step towards a fast close.

Next to the completeness risk, special attention needs to be made to the relevancy of the information. A consolidation application will also help by providing a list of all adjustments, with filters such as:

- Date and time indication of 'modified data' on each adjustment
- User who made the entry
- Amount
- Classification by nature, distinction by journals

It is also possible that the application offers additional possibilities: for instance, in good consolidation tools, past adjustments are not automatically aggregated which means that the historic is available and fully detailed. Furthermore, entries are grouped in journals by type. It is sufficient to make a distinction between historical and new adjustments. Also, the use of linked accounts makes it possible to maintain balanced accounts by company. Furthermore, entries can be reversed in the case of a deconsolidation of the subsidiary.

Figure 4: Analysis of minority shares

Step 6: Consolidation eliminations

The auditor will also check the conso eliminations. Considered as technical as they are automatically performed by the tool according to the consolidation method. These include:

- Elimination of equity and participations
- Calculation of non-controlling interests
- Equity value calculation
- Proportional eliminations

Different reports can help the validation:

- Reconciliation of evolution of the reserves (by company)
- Consolidation difference calculation
- Non-controlling interests calculation
- Set of custom and system validations at conso level

Conclusion

Conclusion

The audit process can be strongly influenced by a tested and proven methodology and preparation from the consolidation manager's side. A consolidation application can help through the delivery of the right information with the transparency and traceability needed.

Furthermore, from the point of view of the consolidation manager, audit remains key, but is less and less often the only matter. The consolidation manager is facing the request of regular and flexible management. There is then a strong need for automation. The right tools, combining both legal and management consolidation, can help improve financial processes and guaranteed quality, reliability and speed during the audit phase.

Did you use all of the functionalities described in this article during your last audit? What were the obstacles you came across? Do you want to save precious time for your next closing?

Find out how our Financial Performance Platform can help.

Watch a demo

About Prophix®

Ambitious finance leaders rely on Prophix® to plan smarter, move faster, and lead with greater control. Prophix One™, a Financial Performance Platform, connects planning, budgeting, forecasting, reporting, reconciliation, and consolidation in one unified experience.

With a complete suite of scalable solutions, AI-powered automation, and data you can trust, Prophix helps teams eliminate manual work, improve accuracy, and deliver insights that drive business results. Backed by nearly 40 years of experience, more than 3,000 active customers partner with Prophix to simplify complexity and stay ready for what's next. www.prophix.com

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