

3 things borrowers should do post-audit

Last year's audited financials are finalized at least a few months into the new year. By this time, borrowers will likely have already reported prior year figures to satisfy credit agreement compliance (based on management reporting / to be confirmed by the audit).

Variances are not uncommon, particularly for a first audit – note even public companies have year-end adjustments. However, if the output is materially different from what was expected, it's important to assess and evaluate necessary changes to ensure compliance with your credit agreement.

There are three things borrowers should do following receipt of their final audit to maintain good standing with their lender:

1. Confirm the final form of your audit complies with your credit facility requirements

If the terms of your facility require audited financials to be produced, your agreement will spell out specific expectations – such as when the report is due to the lender, what statements should be included and the reporting periods that should be covered.

Review the specifics to confirm your audit meets the requirements. These will typically be included in the financial reporting section of your credit agreement (you can search for “audit” or “annual financial statements” to try and locate).

If your audit does not meet the requirements, assess where you fell short and how it can be resolved so it can be discussed with your lender.

2. Assess the impact of any restatements on credit agreement-related calculations

If financial figures feeding into credit agreement / covenant calculations are restated, borrowers should evaluate the effect on credit agreement compliance. Beyond EBITDA, it's important to consider balance sheet and cash flow statement changes or reclassifications that may relate to other facility requirements (e.g., negative covenants).

It's helpful to create a before-and-after summary to identify changes and layout drivers of variances.

3. Consider changes to reporting systems to limit future variances

This topic will likely be discussed in detail between you and your auditor throughout the process. It's important to take time after the final report is delivered to summarize recommended changes to improve reporting systems.

If there are items that will take significant time to implement, consider if there are simple assumption-based approaches that can help bridge the gap in the interim (pun intended) to ensure go-forward financial reporting more accurately reflects GAAP (e.g., spreading year-end costs evenly throughout the year).

Summary

The delivery of your final audit can range from a “non-event” to requiring meaningful changes to reporting. Borrowers should be aware of the parameters set out in their agreement and where they stand post-audit.

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Checklist

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Published on June 19th 2025.

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