

An aerial view of a large whale swimming in the ocean, with a small yellow kayak in the foreground. The whale is the central focus, swimming towards the bottom of the frame. The water is a deep blue color with some whitecaps. The kayak is a bright yellow color, providing a strong contrast to the blue water. The overall scene is serene and majestic.

AUDIT READINESS CHECKLIST FOR WEB3 STARTUPS

TECHACCOUNTINGPRO

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INTRODUCTION

This checklist helps Web3 finance leaders prepare for financial statement audits by outlining critical considerations and common pitfalls. If you are preparing for an upcoming audit, this guide will help you identify potential issues early and reduce delays during the audit process.

Many Web3 startups discover during their first audit that missing documentation, unclear accounting policies, or weak internal controls can significantly increase audit costs and delay financial statement issuance.

EXECUTIVE SUMMARY

Web3 startups preparing for financial statement audits often face challenges that traditional companies do not encounter. These challenges include digital asset accounting, token compensation, blockchain data reliability, and rapidly evolving regulatory expectations.

This checklist is designed to help finance leaders evaluate whether their organization is operationally and technically prepared for an audit.

The checklist addresses:

- Revenue recognition
- Cost capitalization
- Financing activities
- Treasury operations
- Financial reporting
- Blockchain data integrity
- Tax processes
- Digital asset custody
- Internal controls

Organizations that identify gaps early can significantly reduce audit delays, unexpected audit fees, and the risk of re-audit engagements

USEFUL DEFINITIONS

Audit Overages

Additional fees charged when the audit firm discovers issues requiring work beyond the original scope.

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Opinion Shopping

Choosing audit firms based on the likelihood of a favorable opinion rather than merit.

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Process

A defined series of actions designed to produce a specific result.

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Reaudit Engagements

Occur when a new auditor cannot rely on a predecessor's work, requiring re-audit of the same period.

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Controls

Activities that mitigate risks of financial misstatement or ensure data integrity.

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"What Could Go Wrong"

A risk point in processes that can lead to material misstatements.

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Complementary User Entity Controls

Controls required at client entities to ensure the effectiveness of service provider systems.

Management Review Controls

Reviews performed by management to validate financial information.

REMINDERS

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RESPONSIBILITY

Management must understand that the responsibility for the financial statements ultimately lies with them. They must ensure accuracy and completeness.

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ALTERNATIVE SERVICES

Consider whether an audit is necessary at your current stage. Alternatives such as reviews, compilations, or agreed-upon procedures may satisfy investor or regulatory needs with less complexity and cost.

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CULTURE

Avoid "opinion shopping" (i.e., selecting an auditor that would agree with your preferred accounting treatment). Maintain a culture of integrity, transparency, and realistic expectations. Demonstrate ethical behavior and avoid the "Fake it till you make it" culture.

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AUDITOR SELECTION

Consider engaging audit firms with a proven track record at the next echelon. Beware of firms whose past clients were later required to undergo re-audits. Ask prospective auditors how they ensure audit quality and avoid such issues.

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PROCESSES

Have your key processes clearly defined, including procedures for identifying and addressing fraud risk. Your team should have sufficient knowledge of accounting frameworks to effectively oversee service providers' work.

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INTERNAL CONTROLS

You should have an established monthly process for Budget vs. Actual analysis and reporting reviews. Evaluate service organizations and ensure your team understands complementary user entity controls. Ensure the ability to implement and monitor them effectively.

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TEAM SIZE

A dedicated accounting team is essential. Ideally, at least three individuals should be involved in payment processes to enable proper segregation of duties. Different individuals should record and post journal entries.

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CONTENT

How to use this checklist

Pages 5 and onward contain the detailed audit readiness checklist organized by functional area. Organizations should use each section to assess whether key accounting policies, controls, and supporting documentation are in place before the audit begins.

INCOME	5
• Revenue Recognition	5
• Accounts Receivable	6
EXPENSES	7
• Capitalized Costs	7
• Accounts Payable	7
• Prepaid Expenses	8
• Compensation	8
• Tax	10
INTERNAL CONTROLS	11
FINANCING	15
• Equity	15
• Debt	15
• Leases	16
• Token Issuance	16
TREASURY	17
• Digital Assets	17
• Cash & Cash Equivalents	17
• Investments	18
• M&A	19
REPORTING	20
• Presentation	20
• Review	20

INCOME

Revenue Recognition



- Does the company have documentation of its accounting treatment of all significant revenue streams, including how the 5-step ASC 606 model applies in each case?
- Does the company use separate accounts to hold and operate assets custodied on behalf of third parties?
- Does the company appropriately classify funding received from community grants as revenue, liabilities, or debt instruments as applicable?
- Does the company have a memo explaining the accounting treatment of revenue amounts paid to other parties? For example, for staking revenue:
 - amounts withheld as community taxes,
 - validator commission (for delegators), or
 - delegator rewards (for validators)
- Does the company accrue its staking rewards earned but unpaid at month-end? If not, does the company have a memo explaining how this accounting treatment is consistent with US GAAP?
- Does the company consider whether any amounts paid to customers are properly classified as expenses or a reduction in revenues?
- If the company follows US GAAP, has management appropriately determined the fair value measurement date for noncash consideration received? This should be the contract inception date, not the asset receipt date.
- Does the company have a process for accounting for revenue from milestone-based arrangements?
- Does the company have a process in place for prospective and cumulative catch-up adjustments posting to account for contract modifications?
- Does the entity maintain supporting documentation for customer incentives and rebate payments?

INCOME

Accounts Receivable



- Does the organization have an accounts receivable open item management process in place?
- Does the organization assess the credit loss allowance on its financial assets at the end of each reporting period?
- Does the organization have a process in place to ensure the appropriate offsetting of customer accounts receivable and amounts due to customers when required? For example, accounts receivable and prepayments received from customers related to the same contract and performance obligation, where both amounts are not contingent on anything other than the passage of time?
- Does the organization have a process in place for recognizing embedded derivatives related to accounts receivable and/or payable denominated in digital assets, accounted for as indefinite-lived intangibles or cryptoassets?

EXPENSES

Capitalised Costs



- Does the organization capitalize software development costs when required by US GAAP?
- Does the organization appropriately consider the guidance on recognition of research & development (R&D) costs when applicable?
- Does the organization have a monthly process for calculating and recording the periodic amortization expense?
- Does the organization perform a review of impairment indicators for long-lived assets, goodwill, and intangibles (including capitalized software costs, etc.)?
- Does the organization prepare monthly schedules of additions & disposals of assets created through capitalization of costs for each month in which the activity occurred?

Accounts Payable



- Does the organization have a process for identifying and measuring expenses as incurred (rather than as billed or paid), and recognition of unbilled amounts as accrued expenses?
- Does the organization have a process for cut-off analysis of expenses and revenue recognized near the period-end to ensure that all such income and expenses are recorded in the appropriate reporting periods?

EXPENSES

Prepaid Expenses



- Does your organization have a process to ensure prepaid expenses are appropriately deferred?
- Do you have a process in place to ensure that the deferred prepaid expenses are amortized appropriately?
- Do you have a process in place to ensure that deferred prepaid expenses are removed from the prepaid expense schedule in a timely manner once fully expensed?

Compensation



- Does the organization have a process in place to recognize the costs of accrued time-off (vacation) in accordance with the company's policy?
- If the organization had introduced an unlimited vacation policy in the past, did it appropriately consider the effects of state and foreign law provisions? For example, any accrued time off earned by employees in California cannot be forfeited and must be included in the company's liabilities until it is paid or otherwise extinguished.

EXPENSES

Stock Compensation



- Does the company allocate the costs of stock-based compensation by business departments and other features used to classify the cash portion of compensation for the same employees?
- Do you review secondary market transactions with the company's stock to ensure that the excess of consideration paid over the fair value of stock transferred is accounted for as compensation cost unless clearly related to purposes other than compensation for services rendered?
- Does the organization appropriately record stock awards on its books? Are withholdings of income taxes being made as required by applicable law?
- Does the company account for stock award forfeitures as they occur or use estimates of forfeitures as allowed by ASC 718-10-35-3?
- If the awards were modified, did the entity account for the modification by appropriately accelerating expense recognition for the previous award when such acceleration is required?
- Does the company have a documented position on the establishment of award dates for financial reporting purposes?
- Does the company recognize the full amount of the expense for all vested awards when the vesting date precedes the end date for the tranche amortization?
- Does the company use the appropriate valuation methodology to measure stock awards?
- Did the company develop the volatility assumption using the appropriate peer group and time horizon?

EXPENSES

Token Compensation



- Does the company appropriately measure the fair value of token compensation liabilities, taking into account the legal and technological restrictions in effect on the measurement date, but only to the extent that these restrictions characterize the unit of account rather than contractual restrictions specific to the entity?
- Does the company recognize the embedded derivatives on token compensation liabilities?
- Does the company recognize expenses related to each tranche of the award in appropriate time periods?
- Does the company have a process to withhold and remit to tax authorities amounts of taxes due on payments made to employees under token compensation plans?

Taxes



- Does the organization have a process for identifying and tracking temporary tax differences by jurisdiction and source?
- Does the organization have a process to track changes in the tax law?
- Does your organization have a process for the establishment and settlement of sales tax obligations in all relevant jurisdictions?
- Does your organization have a process in place to identify uncertain tax positions and assess associated reserve requirements?
- Does the organization have a process in place for withholding income tax on token distributions made to employees and other parties (when applicable)?
- Does the organization have robust support documentation for R&D tax credits (when such credits are claimed)?
- Does the organization have transfer pricing documentation for relevant transactions?
- Does the entity have a written accountable plan in place?

INTERNAL CONTROLS

Internal Controls (part I)



- Does your organization have a budgeting process in place, including:
 - Cash-flow forecasts
 - Annual budgets (1 year)
 - Medium-term budgets (2-3 years)
 - Budget vs. actual variance analysis
 - Going concern evaluations

- Does the company update its valuation at least annually?

- Does your organization have a periodic risk assessment process with formal documentation of identified risks and their responses?

- Does your team understand that materiality may change in each reporting period?

- Does the organization have a list of standard monitoring activities consistently executed in each period?

- Does the organization have the appropriate segregation of duties in place and effective mitigating controls that address those situations where a sufficient level of segregation of duties does not exist?

- How do you ensure that the information produced by the entity used in control operations is complete and accurate?

- Does your organization have a process and controls in place to support the completeness and accuracy of blockchain data used for accounting purposes?

- Are the accounting policies in place for all relevant process areas?

- Does your team consistently account for similar accounting events and objects? For example, does your team have a reference list of pricing data sources for the assets you routinely operate?

- Does the organization maintain a list of peer companies and periodically evaluate its performance against them?

INTERNAL CONTROLS

Internal Controls (part II)



- Does your team have a formal list of non-GAAP accounting policy (or accounting policy conventions)? Do you perform an annual assessment of each item on this list? |
- Has the company created formal process documentation, including narratives and risk control matrices, for all processes relevant to financial reporting? |
- Does the company have a centralized library and unified document retrieval system that includes all accounting-related documentation? |
- Does the company's personnel follow the "document everything" mindset? |
- Does the entity have a transaction value threshold that requires management to obtain the Board's pre-approval? |
- Do the entity's policies require the Board to authorize significant related party transactions? |
- Does the organization have a conflicts-of-interest policy? |
- Has your executive team entered into indemnification agreements with the company without board approval? |
- Have you had any known corrected or uncorrected material misstatements in your financials that the board is not aware of? |
- Have you incurred losses from a cybersecurity incident that were not disclosed to the board and investors? |
- Can your CEO or CFO unilaterally authorize and approve payments that exceed 5% of the company's assets? |
- Can the CEO or CFO independently prepare and send a payment to an external party without a second-person approval? |
- Has the organization granted mid-term salary increases that are not tied to company performance? |

INTERNAL CONTROLS

Internal Controls (part III)



- Have you ever made one-time payments to executive team members holding more than 1% of company stock without formal board review and approval? |
- Have you made distributions or compensatory payments to only a portion of investors within the same class? |
- Does the entity invest its funds directly in equity of other startups without a professional asset manager? |
- Do you distribute tokens to external addresses without KYC documentation? |
- Do you hold custody of funds belonging to customers or other third parties, including initial token allocations for the ecosystem? |
- Do you have advisory arrangements involving significant equity or cash payments for which you do not receive verifiable documentation detailing the scope and extent of work performed? |
- Were payments to terminated employees documented and consistent with market norms? Is your capitalization table complete, accurate, and up to date? |
- Do you have a process to ensure payments match contracted terms and do not exceed agreed amounts? |
- Do you maintain a single register of all approved wallets to which funds may be transferred? |
- Do you have a process for withholding taxes on token-based compensation distributed to employees? |
- Do you have controls over marketing spending that ensure only agreed charges and justifiable expenses are paid? |

INTERNAL CONTROLS

Internal Controls (part IV)



- Are there formal communication channels established within the company for communication to the responsible individuals (and, where relevant, to the persons preparing financial statements) of the following matters:
 - Litigation, claims, and assessments
 - Known or alleged instances of financial reporting fraud and/or asset misappropriations
 - Suspected noncompliance with laws and regulations

- Does the organization have a process (ceremony) of private key generation and controls that provide reasonable assurance that the key was not revealed to unauthorized parties?

- Does the organization have controls to prevent keys from being lost or erased?

- Does the organization obtain and read SOC reports for service organizations and ensure that the following items are addressed:
 - Complementary end-user entity controls identified in SOC reports are implemented, timely executed, and tested
 - Deficiencies that were identified in the operation of internal controls at the service organization
 - Same activities performed for relevant subservice organizations identified

- Does your organization have an established understanding of how information flows across all relevant systems (best practice is to document it as a flowchart)?
 - Crypto subledger software
 - Blockchain data extraction tools
 - ERP (Enterprise Resource Planning)
 - CRM (Customer Relationship Management)
 - HRMS (Human Resources Management System)
 - Consolidation and Financial Reporting System (standalone software or end-user computing solution)
 - Integrations between internal (data flow) and external systems (banks, asset custodians, etc.)

- Does the organization have a robust process for extracting, transforming, and loading blockchain data for financial reporting?

FINANCING

Equity



- Did the organization determine what the appropriate classification of preferred stock issued (debt vs. equity) is?
- Did the organization repurchase any of its own stock, and if so, were the repurchased shares cancelled or retained in treasury stock?
- Did the organization evaluate the impact of repurchasing activity on the liability vs. equity classification of stock-based compensation?
- Does the organization have any outstanding stock warrants?
- Did the organization evaluate the appropriate classification of amounts associated with issued Simple agreements for future equity (SAFEs)?

Debt



- Does the organization have a process to regularly update balances of current portions of long-term debt and other liabilities?
- Does the organization have a clear policy on the accounting treatment of crypto borrowings (if applicable)?
- Does the organization appropriately classify and present its convertible debt outstanding?
- Did the organization evaluate whether any of its issued instruments are required to be presented as temporary equity on the company's balance sheet (guidance applies to public companies only, and might not be relevant if you do not anticipate going public in the United States)?

FINANCING

Leases



- Does your organization have a complete list of lease arrangements (lease inventory) to ensure that all leases are appropriately classified and recognized under ASC 842?
- Does your organization have a process for identifying and assessing embedded leases?
- Does your organization prepare and reconcile a lease roll-forward schedule at least quarterly?

Token Issuance



- Does the organization expense all token development costs associated with the internally created indefinite-lives intangibles as required by FASB ASC 350-30-25-3?
- Does the management have a legal opinion on the nature of tokens and rights conveyed, and the analysis of whether such tokens are considered securities?
- Did management document the analysis showing which entity is deemed the legal issuer of tokens and whether that entity is an affiliate of the reporting entity?
- Does the management use different wallets for receipts of staking rewards on token allocations that were delegated, and earn staking rewards to support its ability to separately track those tokens with zero cost basis (the initial allocation) vs. tokens with the cost basis determined based on the contract inception fair value of tokens received as staking rewards?

TREASURY

Digital Assets



- Has the organization implemented a cost basis tracking methodology compliant with US GAAP guidance (historical cost for cryptoassets under ASC 350-60 vs. impaired historical cost for digital assets accounted for as indefinite-lived intangibles)?
- Does the organization have any plug activity items in the digital asset roll-forward? If yes, what is the management approach to validating the related amount?
- Does the organization have custody of third-party funds? If so, did management consider whether such digital assets and the corresponding obligations to return them are recognized on the entity's balance sheet?
- Are any of the third-party (including customer-owned) funds commingled with the company's funds?
- Does the organization's policy determine the fair value of tokens, and does it consider whether adjustments are needed to principal market prices when such adjustments are necessary?
- Does the organization conduct a full inventory of its digital assets at least annually? If not, is there an alternative compensating process in place (e.g., perpetual counts)?

Cash & Cash Equivalents



- Does your organization have a formal process for monthly bank statement reconciliation with a set due date?
- Has the organization defined a policy for instruments classified as cash equivalents?

TREASURY

Investments



- Are there any Variable Interest Entities (VIEs) involved legally or operationally in the business, and if so, have you evaluated whether consolidation of such VIEs in the reporting entity's consolidated financial statements is required?
- Has the organization entered into transactions with fully consolidated subsidiaries, VIEs, or equity method investees? If so, does the team have a process for calculating and recording journal entries or financial statement adjustments to eliminate the unrealized intercompany profit/(loss)?
- Does the company have a process for requesting updated financial results and valuations from all investees, at least annually?
- Does the organization have a process for accounting of equity securities, including tracking information about new transactions with equity securities of investees without readily determinable fair value?
- Does the company have a process to ensure that all investee's that meet the definition of an affiliate are included in the list of the organizations' related parties?
- Does the organization track its open positions in liquidity pools (if any) and account for the impairment (when applicable)?
- Does the organization have a process in place to account for investments made in token warrant agreements?
- Does the organization have a process in place for simple agreements for future tokens (SAFTs) to ensure that the embedded derivatives are properly accounted for after the token has been listed on an exchange?

TREASURY

M&A



- Does the acquired entity use accrual or cash accounting? If cash accounting is used, the company will likely need to adopt new processes for accrual calculations |
- Does the acquired entity follow the policies of the parent entity? |
- Is the level of detail of the acquiree's trial balance sufficient for the parent's company reporting purposes? |
- Has management created a mapping between the subsidiary's chart of accounts and the consolidated financial statements line items? |

REPORTING

Presentation



- Does the organization have a process in place to periodically re-evaluate the functional currency, as required by US GAAP? |
- Does the organization have a process in place to periodically evaluate its going concern assumption? |
- Does the entity present digital assets due from exchanges as part of digital assets or as digital asset receivables? |
- Does the entity have a policy on the classification and presentation of digital assets and cryptoassets as current vs. noncurrent in its balance sheet statement? |
- Cash flows statement presentation of proceeds from sales and purchases of cryptoassets |

Review



- Does your organization have a formal tie-out process in place for financial statements? |
- Do you conduct the benchmark analysis of financial statements and performance against peer companies? |
- Does your organization complete the disclosure checklist for each set of financial statements prior to the issuance/distribution? |

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For more resources, visit TechAccountingPro.com

TAP

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