



A Standard Recipe for Audit Preparation

By Rosemary Madnick and Nichole Pittman

Baking a cake and preparing for an audit have many similarities. Standardizing a recipe for an audit allows auditors and research administrators to prepare a consistent “product” repeatedly. Standard audit recipes reduce the amount of unexpected surprises that can be encountered during normal operations. Just like in baking, you can pick a simple recipe with limited ingredients or a multifaceted recipe depending on your level of expertise or upon the expectations of those eating the cake.

There are different types of audits: operational audits are a comprehensive review of an office, program, or process to evaluate central business practices for efficiency and effectiveness; compliance audits measure adherence with Federal and State laws and regulations such as 2 CFR 200, institutional policies and procedures, and sponsor grant and contract requirements; investigative audits identify the possible misappropriation of an entity's assets or conflicts of interest.

With all audits, as the complexity increases it will require forethought and organization to successfully respond to an audit request. Taking the time to prepare for an audit is an investment – in ingredients (documentation), time, and pride. It is only logical that you do everything you can to guarantee that your audit (cake) is as smooth and tasty as possible. Follow the recipe below to ensure your institution is prepared and has a successful end product. While the steps for preparing for an audit vary considerably depending on the type, you will want to do the following before starting:

Pre-Audit Preparation

- 1 Read through the recipe (often referred to as the purpose, scope or objectives of the audit)** – This may sound apparent, but audits have certain requirements, such as specific documentation, policies, and procedures that are specific to the type of audit and cannot be
- 2 Assemble and gather the ingredients (the information and materials)** – “*Mise En Place*” In French, the cooking term is to gather, prep, and organize what you will need for cooking. Organize all of your information and materials together in one place, preferably an electronic

location for easy access. For example, documented controls, in the form of written policies and procedures, will always be requested. Establish a file for regulatory documents such as grants and contracts, notice of award, proposal budget, budget narrative, financial correspondence, and any other relevant information. The auditor will systematically evaluate information obtained based on what is given. It is important that all records be up-to-date, accurate, and organized. Share any internal control concerns you may have. Depending upon the scope and objectives, the auditor may be able to offer advice informally. Of course, the advice may also be relayed formally through written recommendations.

Be prepared for two requests for information. There's often a preliminary request for information that the auditor will make during planning or early in the fieldwork stage. This may include a request for a population of grants, contracts, or a listing of transactions for specific awards. The auditor may use this information to develop a second request for documentation necessary to perform testing of grant or contract requirements or transactions for compliance with award and agency terms.

3 Make sure your workspace and equipment are all in good working order and mix your ingredients. Prepare the individuals involved in the audit – Preparation, coordination, and cooperation builds confidence within the team. An audit is a collaborative process and the ingredients need to work together for consistency. Everyone has a responsibility: management and leadership, sponsored projects office, department and units, central administrative offices such as finance and accounting, procurement, human resources, and technology systems, to name a few. Coordination improves both audit effectiveness and efficiency. Although an audit can be time-consuming, strong investment in preparation and double-checking that all the ingredients are available translates to a well prepared audit which may in turn smooth the remainder of the audit process.

4 Baking – After compiling all of the ingredients (i.e. documentation, staff resources, and institutional knowledge), the auditor will test, compare, and confirm the evidence or field work until gaining reasonable assurance of the internal controls. They may also be testing for compliance against the grant or contract scope of work and budget. Though most auditors do not plan on “surprising” you, it may feel like a surprise if they bring a seemingly unrelated process or procedure into the scope of the audit. For example, information technology controls could possibly be included in the audit scope for systems that are necessary for recording and processing the transactions. Once you've handed off the documentation to the auditors, set your timer. If you've been proactive in anticipating the needs of the auditor, now is the time to wait for their questions and/or findings.

5 Test for completeness (the internal controls) – Determining a cake is done is informed by recipe instructions that generally are described by bake time and visual appearances. Internal controls need to be monitored in the same way. Highly effective and efficient organizations often develop a process to evaluate the quality of internal controls over time. Internal controls are policies and procedures put into place to safeguard an asset, provide reliable financial information, promote efficient and effective operations, and ensure compliance with applicable laws and regulations.

There are three types of internal controls: like a kitchen timer, preventative controls are intended to discourage errors or irregularities from occurring; detective controls are intended to find errors or irregularities after they have occurred – in baking, this is akin to tasting

the frosting before using it- one taste will let you know if you accidentally used salt instead of sugar and; directive controls which are intended to encourage a desirable event.

By following the recipe, you allow the control environment to set the tone of the Institution. These become fundamental attributes of the culture, providing a foundation that includes integrity, ethical values, management's philosophy, and operating style. It will reveal the governance structure, the way management assigns authority and responsibility, and organizes and develops its human capital. It's like the filling that holds the cake layers together. It is important to understand the importance of institutional culture because auditors are often tasked with reviewing the **overall governance**, risk, and controls during the performance of their audits.

6 Ice the cake (the report) – After baking and cooling it's time for layering and icing your cake. The icing on your audit cake is the generated report, reviewed and finalized. Be sure to respond to any inquiries the auditors may make. It is important to follow up if there are any corrective actions indicated. This is often another opportunity to collaborate with other departments, as relevant, to develop practical corrective action plans that meet the intent of the recommendations without overburdening the organization.

In conclusion, a lot of work goes into preparing for an audit, just like baking a cake. Not every audit is equal and the way to prepare for them often differs depending on the techniques and ingredients used. Like cake recipes, there are some basic “culinary” components that need to be present in order to soar through an audit and achieve desirable outcomes. Understanding the recipe, taking the time to clarify unfamiliar ingredients, and preparing with intention can really help you whip together the elements of a successful audit from start to finish. ■

Want to learn more about audit preparation?

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How to Manage a Financially Focused University Research Audit Effectively.
Available at <https://onlinelearning.ncura.edu>



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