

How to Work with Internal Audit: Leveraging Internal Audit for Success

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Surviving an Audit: The Basics

When you get a notification that your department will be audited, what is your first thought? Is it, “Wait, who is coming? Why my department? What will I have to do? And how long is this going to last?”

Welcome back to our three-part series on working with internal audit, including some insight into these questions and hints for staying out of trouble. In the first article, we discussed the past, present, and future of the internal audit profession and how certain types of internal audits can actually be helpful. In this second article, we share with you the nuts and bolts of the internal audit process and provide terminology for “talking the talk” when interacting with internal auditors. Look for our third article, offering specific ideas for leveraging internal audit to help your department, in an upcoming issue of *NCURA Magazine*.

Like many disciplines, internal auditors are guided by a professional association that promulgates standards, provides certifications, and shares best practices for the profession (see the Institute of Internal Auditors (IIA) website at www.theiia.org). While common components comprise most internal audit processes, HOW the audit process unfolds will be impacted by your internal auditor’s mentality (e.g., “gotcha” versus helpful ally) and can be greatly influenced by your taking proactive steps to make the process go more smoothly. To arm you with knowledge and tactics to enhance your experience with internal audits, we outline participants in the audit process, the typical phases in the process, approaches for addressing prevalent challenges, and key terminology.

Participants in the Audit Process

A solid first step in surviving an audit is understanding where you fit into the process. Depending on your institution and the audit scope, there could be a handful or more than a dozen of individuals participating in the audit process, typically including the following:

Audit Committee: This Board of Trustees committee oversees the performance of the internal audit function, approves the annual plan drafted by internal audit, and reviews the audit results. Internal audit’s ultimate fealty is to the audit committee.

Executive Leadership and Management: On a day-to-day basis, internal auditors report administratively to one or more members of the institution’s executive leadership, such as a chief financial officer or an executive vice president. Internal audits should work collaboratively with executive management on annual audit planning, and should share audit results with management before reporting to the audit committee.

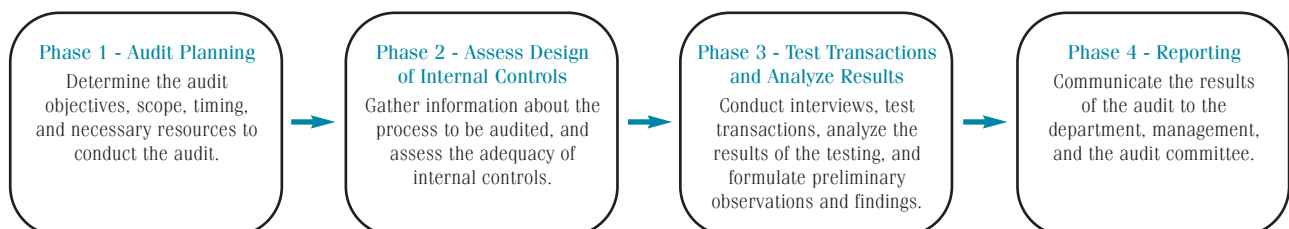
Department: Each internal audit addresses the activities of one or more departments – either an academic area (such as biology or mechanical engineering) or a functional area (such as sponsored research or procurement). Ideally, internal auditors gain context for the audit by discussing the department’s strategies and operations with the head of the department, and collaborate with department administration to accomplish the audit.

Process Owner: Internal auditors work with “process owners” to understand policies, procedures, and internal controls at a detailed level. For example, the head of the accounts payable function may be the process owner for payment of vendor invoices.

The Audit Process and How You Fit In

So, you may be asking, “How can I help in this process?” Or, perhaps more likely, “How can I make this process easier for me?” Well, start by understanding the overall audit process and specific actions that you can take to minimize the pain involved in an audit.

Most internal audits involve four phases:



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Phase 3 – Test Transactions and Analyze Results

This phase can include gathering documentation, conducting interviews, performing testing procedures, analyzing the results of the testing, and formulating preliminary observations and findings.

Excessive Documentation Requested: The auditors are asking for WAY too much documentation for your department to handle, or are asking for unnecessary documentation.

Confirm the Need Before Providing Documentation: Discuss with the internal auditor in detail the intended use of requested documentation before you begin to gather it. Channel all requests for information through your department audit liaison, who can then coordinate the responsibilities for gathering the documentation within the department.

Questions, Questions, Questions: The auditors keep coming back to you with follow-up questions on the documentation provided.

Organize: Clearly label and organize the documentation that you provide. Ask a colleague to double-check the completeness, accuracy, and organization of the information before you provide it to the internal auditors.

Schedule Regular Check-ins: Encourage the auditors to ask you follow-up questions in a structured way. For example, hold a weekly status call or ask the audit team to send questions via email only when they have amassed a number of questions.

Missing Documentation: Oh no! I can't find supporting receipts for travel.

Explore Alternatives: If you cannot locate certain source documentation, let the auditors know before you spend 30 hours looking for a taxicab receipt. Quite possibly, the auditors can perform alternate procedures or will accept another type of documentation. Think creatively about what might substantiate a particular transaction (e.g., an internal travel itinerary combined with a credit card receipt to support an airfare expense).

Ridiculous Audit Findings: The auditors are being overly critical and have many findings.

Collaborate: Ask that the auditors meet with you to discuss their observations before they begin to write their report. Encourage the auditors to give you a chance to search for additional documentation or other information to clear up findings prior to the finalization of the report, if possible.

Phase 4 – Reporting

The objective of this Reporting phase is to communicate the results of the audit to the auditee, management, and the audit committee.

Surprise Findings: The final report includes observations and recommendations that you've not heard previously.

Review the Draft Report: Encourage the auditors to allow you to review a draft of the report before it is shared with management. This will enable you to discuss key issues that were not brought to your attention, as well as correct any factual errors regarding your processes, controls, or findings.

React Timely: Instead of ignoring the auditors and then complaining when the final report doesn't reflect your input (or the facts!), provide feedback to the auditors on the draft report within the requested timeframes.

Unrealistic Recommendations: They want us to do what?

Urge Practicality: When you review the report, pay particular attention to the recommendations made by the auditors. Speak up when you know that these recommendations will be difficult to implement in your department. The auditors may be able to alter the recommendations, or suggest changes outside of your department to facilitate implementation. For example, if you are asked to perform monthly financial reviews of a researcher's accounts, auditors can state in the report that you should be given access to those reports online.

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