



## Preparing for audit: Tips for success

Washington's state and local governments regularly undergo a wide variety of audits with differing objectives. These audits assure you and the public that financial data is accurate and public resources are properly safeguarded, that the government complies with various regulations and its programs are run effectively. The audit process is an irreplaceable tool to help ensure your agency's financial and operational affairs are in order. But facing an audit – especially your first – may seem daunting. If you know what types of audits to expect, you can devise strategies to prepare for each, and likely achieve better results as well.

While state law (RCW 43.09) requires the State Auditor's Office to audit all public funds, your government may also be audited by others, such as granting agencies or the Department of Revenue. A good first step on the road to easier audits is to prepare a list of all known and likely audits. Review your government's past audit reports and ask colleagues if they know of audit requirements for their departments and programs. Most state or federal auditing offices can tell you if they have any planned or mandated audits for your government approaching, and will share their expected timeline so you can begin to prepare.

Our top 10 tips on how to prepare for an upcoming audit fall into five broad categories: Get acquainted with the auditor; Clean up records; Keep up with internal changes; Keep abreast of external changes; and Prepare thoughtfully for the actual audit.

### ***Get acquainted with the auditor***

- 1. Open a line of communication before the audit start date.** The ideal time to ask auditors what materials they will need is long before they arrive at your door. It minimizes surprises and gives you time to plan or make necessary changes in files or processes. Auditors are often willing to provide useful resources or criteria that can help you evaluate potential solutions or accounting treatment options.
- 2. Set up an early planning meeting with your auditor.** Ask the auditor for an early planning meeting to discuss the questions you have about the process, to learn which areas the auditor expects to review (such as statewide risks for your government type or prior audit issues) and, if you were not involved in it, how the previous audit went. You can also ask for a list of items the auditor will need so you can get a head start on audit requests.



### ***Clean up records***

- 3. Keep your files current and complete.** Audits will often review day-to-day documentation of financial reports (such as bank reconciliations, voucher approvals, payroll documents), meetings (such as governing body and committee meeting minutes), and external reports (such as grant reporting, reimbursement requests, contract progress billings). It pays to complete such documentation promptly. Your government will be able to monitor these activities and manage operations more effectively, more easily research variances, and prepare painlessly for audits. Having complete and well organized files will help make gathering documents requested for an audit easier.
- 4. Learn from the past. Review your government's earlier audit results.** Have you resolved any prior audit recommendations? If there were uncorrected misstatements in the last financial audit, will those affect the current financial statements (if they remain uncorrected)? Taking the time to address corrections or unresolved problems now can put you on firmer ground for the coming audit's results.

### ***Keep up with internal changes***

- 5. Assess changes in activities.** Changing procedures, new or discontinued programs, and implementing new policies or software systems to improve operational challenges – all can benefit a government, but they can also create new internal control weaknesses or concerns. It is important to assess changes in activities to ensure they are working properly and to ensure no information is lost during a transitional change. Reach out to your auditor with questions whenever you change procedures or software: they can help you find the right controls.
- 6. Remember to document, document, document throughout the year.** Auditors will often request documentation that demonstrates the preparation and review processes in place at your government. You may know that a process or review occurred, but without some documentary evidence, the auditor may not be able to confirm it did. Keep supporting documentation for transactions that may be required in an audit available for the entire audit period: do not archive records applicable to the period until the audit has concluded. Make sure files are complete, and always retain guidance received from a granting agency or other external sources to show you have kept the required materials. Finally, be sure to retain all supporting documentation for unusual transactions or unique circumstances.

### ***Keep abreast of changes to external policies or standards***

- 7. In addition to documenting your internal processes and recording financial transactions properly, be aware of changing accounting standards.** They will usually require time and resources to implement correctly. You can also consider reviewing the audit reports of similar governments to stay ahead of emerging issues.

### ***Prepare thoughtfully for the actual audit***

- 8. Develop an audit timeline and assign responsibilities.** Review the list of items to prepare before the audit and assign each to a responsible person, with a due date (when feasible). Mapping out a timeline and responsibility for compiling records will ensure you are prepared for the audit to start.
- 9. Perform a self-review of the annual report.** Once all year-end closing entries are made, review schedules and work papers to ensure amounts agree or reconcile to the trial balance. Take a step back and assess the overall financial statements for reasonableness. Also, read and update the notes to your financial statements, and refer to a disclosure checklist to make sure you have included all the required information. Be prepared to explain financial statement line-item variances from year to year or from budget to actual.
- 10. Once the audit starts, relax.** If you acted on tips one through nine, you have successfully prepared for the upcoming audit.

*A helpful training video on the types of audit services the State Auditor's Office performs resources that may assist you in preparing for an upcoming audit can be viewed at [http://portal.sao.wa.gov/trainingfiles/An\\_Overview\\_of\\_Audit\\_Services/story.html](http://portal.sao.wa.gov/trainingfiles/An_Overview_of_Audit_Services/story.html)*