

CHAPTER IV

PLANNING AND CONDUCTING INTERNAL AUDIT ENGAGEMENTS
(FIELDWORK)***IIA Standard 1200 - Proficiency and Due Professional Care:***

Engagements must be performed with proficiency and due professional care.

IIA Standard 1220 - Due Professional Care:

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

IIA Standard 1220.A1 - *The internal auditor must exercise due professional care by considering the:*

- *Extent of work needed to achieve the engagement's objectives;*
- *Relative complexity, materiality, or significance of matters to which assurance procedures are applied;*
- *Adequacy and effectiveness of governance, risk management, and control processes;*
- *Probability of significant errors, fraud or noncompliance; and*
- *Cost of assurance in relation to potential benefits.*

IIA Standard 2200 – Engagement Planning:

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations.

IIA Standard 2201 - Planning Considerations:

In planning the engagement, internal auditors must consider:

- *The objectives of the activity being reviewed and the means by which the activity controls its performance;*
- *The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;*
- *The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and*
- *The opportunities for making significant improvements to the activity's risk management and control processes.*

IIA Standard 2210 – Engagement Objectives:

Objectives must be established for each engagement.

IIA Standard 2210.A1 – *Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.*

IIA Standard 2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

IIA Standard 2210.A3 – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.

IIA Standard 2220 – Engagement Scope:

The established scope must be sufficient to satisfy the objectives of the engagement.

IIA Standard 2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

IIA Standard 2230 – Engagement Resource Allocation:

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

IIA Standard 2240 – Engagement Work Program:

Internal auditors must develop and document work programs that achieve the engagement objectives.

IIA Standard 2240.A1 - Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

IIA Standard 2300 – Performing the Engagement:

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.

IIA Standard 2320 – Analysis and Evaluation –

Internal auditors must base conclusions and engagement results on appropriate analysis and evaluations.

IIA Standard 2330 – Documenting Information -

Internal auditors must document relevant information to support the conclusions and engagement results.

1. Introduction

- 1.1 Different internal audit organizations use a variety of methods, terminologies and steps for planning and conducting internal audits. The methodologies and processes to be used in planning and conducting an audit engagement by the IAS are outlined in this Chapter.
- 1.2 The following Practice Advisories issued by the IIA, which provide guidance on engagement planning and fieldwork, should be reviewed together with the relevant auditing standards. The processes outlined in this Chapter take into account the guidance contained in these Advisories.
 - (i) Practice Advisory 2200-1: Engagement Planning.
 - (ii) Practice Advisory 2200-2: Using a Top-down, Risk based Approach to Identify the Controls to Be Assessed in an Internal Audit Engagement.
 - (iii) Practice Advisory 2210-1: Engagement Objectives.
 - (iv) Practice Advisory 2210.A1-1: Engagement Planning.
 - (v) Practice Advisory 2230-1: Engagement Resource Allocation.
 - (vi) Practice Advisory 2240-1: Engagement Work Program.
 - (vii) Practice Advisory 2300-1: Use of Personal Information in Conducting Engagements
- 1.3 The Annual Audit Plan, when prepared and approved in accordance with the processes outlined in Chapter III, would have identified a portfolio of potential audit engagements. The objectives and scope of the audit engagements contained in the Annual Plan are generally based on preliminary information obtained during the macro planning process, particularly what are considered to be the key risks to the organization. Refer to paragraphs 1 to 3 in PA 2200-2 for further guidance. As additional and more detailed information on the auditable area encompassed in the proposed audit engagement is obtained through the engagement planning process, the objectives and scope of the engagement would be continuously refined. This process is aimed at providing a more precise focus on significant and material risks and issues relating to governance, risk management and control processes in the auditable or subject area.

- 1.4 In planning and conducting the engagement, the CIA should be careful to minimize Audit Risk, mentioned in Section 3.4 of Chapter II. Audit Risk is the possibility that audit findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of:
- (i) Evidence that is not sufficient and/or relevant;
 - (ii) Conclusions based on a weak internal control structure that is susceptible to manipulation.
 - (iii) The chance of not detecting a material problem due to inappropriate methodology.
 - (iv) Reliance on information that is not properly verified
 - (v) Inadequate cooperation from the auditees' agencies.
 - (vi) Lack of professional competency.
 - (vii) Working papers
- 1.5 Audit risk can be reduced by clearly defining the audit objectives and the scope of work of an audit engagement and applying proper methodology and audit steps in collecting evidence that is necessary to support all audit findings and conclusions.
- 1.6 CIAs should follow the planning processes outlined below to minimize audit risks and ensure that resources and efforts are devoted to key areas that can have a significant impact on the performance and results of the program or activity being audited. At the end of the planning phase, the CIA should be able to clearly state what will be audited, why it will be audited, and how it will be audited. This will ensure that the conduct of the audit itself is properly directed to gathering the necessary evidence to form conclusions in relation to the audit objectives.

2. Initiating the Engagement

- 2.1 As a first step in initiating an audit engagement, the CIA should formally notify or inform the Auditee in writing about the proposed audit engagement. The Auditee is normally the most senior manager directly responsible or accountable for the program, activity, organization or initiative. This may be a head of a Department, Division, Office or an organizational unit. In some cases, particularly in crosscutting or 'across the board' audits, there may be more than one Auditee. Subject to the local arrangements, the notification could be made direct to the Auditee(s) concerned and copies of the notification could be forwarded to the higher level Managers within the organizational hierarchy to keep them informed of the audit activity.
- 2.2. The **Audit Notification** should normally:
- (i) Inform the Auditee of the:
 - (a) Purpose of the engagement based on the preliminary objectives and scope together with any specific considerations or concerns.
 - (b) Names of the auditors assigned to the audit.
 - (c) List of schedules, documents required;
 - (d) Time frame for the start and completion of the audit engagement.

- (ii) Request the Auditee to:
 - (a) Appoint a primary focal or contact person to facilitate the coordination of audit work.
 - (b) Arrange an opening meeting to discuss the audit engagement

2.3 In the **Opening Meeting** with the Auditee, the CIA should inform, discuss, clarify or seek:

- (i) The known details of the program, activity or organization to be audited, e.g. mandate, resources, structure.
- (ii) The Auditee's responsibilities in the audit process.
- (iii) Information and copies of documents deemed to be important to acquiring a good understanding of the Auditee's activities, including any recent internal and external developments that may have an impact on the auditable area and internal and external reports of any review conducted in respect of the audit area or other related areas.
- (iv) To identify, at least on a preliminary basis, all the relevant staff and others who will need to be contacted and interviewed by the Auditors.
- (v) Any suggestions from the Auditee with respect to the engagement particularly in relation to the audit objectives, scope and audit approach.
- (vi) Any concerns that the Auditee may have with respect to the Audit Engagement, including the timing of specific work so as to avoid any undue disruption of the Auditee staff's work.

3. Planning the Audit Engagement

3.1 The planning phase normally consists of three distinct, but often overlapping, activities, i.e. gaining an understanding of the nature of the program, activity, organization or initiative being audited, determining and assessing risks, and determining the most appropriate audit objectives, scope and criteria to be employed as outlined below.

3.2 Understanding the Audit Area

3.2.1 The Internal Auditor needs to develop a sound understanding of the program, activity, organization or initiative being audited, including its management practices, business processes, policies and procedures, and external and internal environments, focusing attention on all important aspects of risk management, control, and governance processes for the program, activity, organization or initiative being audited. As part of this process the Internal Auditor should:

- (i) Review key documents that are necessary to gain an understanding of the audit subject and this would normally include:
 - (a) Relevant laws and regulations.
 - (b) Policy, procedures and standards, manuals and directives.

- (c) Results of previous audits or evaluations by the Internal Auditors, the RAA and self-assessments by the Auditee.
- (d) Organization charts.
- (e) Listings of key personnel.
- (f) Programme or organizational plans and objectives.
- (g) Budget and other financial allocations and actual performance for the last two or three years.
- (h) Operational and financial data and related reports to obtain an understanding of the nature of transactions, and the volume of transactions.
- (i) Job descriptions and delegation of authority instruments.
- (j) Process and system maps or flowcharts.
- (k) Management meeting reports or minutes.
- (l) Risk assessments.
- (m) Management studies or reports
- (ii) In addition to reviewing documentation and analyzing financial and non-financial performance information, consider and where appropriate:
 - (a) Visit sites and observe operations.
 - (b) Interview management, field staff, central agency representatives or subject matter experts with respect to governance, risk management and control issues as well as other operational issues relating to programme efficiency and effectiveness.
- (iii) The Internal Auditor should prepare or up-date the Auditable Unit Profile (Annex III.1) that was prepared when establishing the Annual Audit Plan.

3.3 Assessing Risks

3.3.1 The risk assessment process provides a structured means of evaluating information and applying professional judgment as to the most important areas for audit examination. It should be noted that in most cases the Audit Engagement is being initiated only because some key risks that were already identified in the planning process prompted its inclusion in the Annual Plan. The Internal Auditor should review the criteria and documentation that went into the decision to include the engagement in the Annual Plan in the first instance. In other cases, a request from senior management may have prompted the audit.

In such cases, the reasons advanced by senior management should be used to guide the risk assessment process. Chapter II of this Manual, which outlines risk management and risk assessment processes, should be reviewed when carrying out the preliminary risk assessment.

- 3.3.2 A detailed risk assessment is undertaken during the planning phase of the engagement to confirm that the initial objectives, scope and lines of enquiry have indeed focused on the most important risks associated with the program or activity being audited. As a first step in the process, the Internal Auditor considers if Management has conducted risk assessment and has established procedures to manage the risks. If so the Internal Auditor should review:
- (i) The reliability of management's assessment of risk.
 - (ii) Management's process for monitoring, reporting, and resolving risk and control issues.
 - (iii) Management's reporting of events that exceeded the limits of the organization's risk appetite and management's response to those reports.
 - (iv) Risks in related activities relevant to the activity under review.
- 3.3.3 If Management has not conducted risk assessment on its own or has not properly documented the process, then the Internal Auditor should conduct an in-depth assessment. Internal Auditors should use the information obtained through processes mentioned in Section 3.2, and conduct detailed assessment by using procedures already outlined in Section 5.7.3 in Chapter III and focusing close attention to the specific operations under review. The assessment should seek to:
- (i) Identify the risks associated with the achievement of the Auditee's objectives and expected results, including the prevention of fraud.
 - (ii) Assess the relative significance of the risks and likelihood of each risk occurring and the impact should it occur.
 - (iii) Determine whether management's assertions or its plan of controls are likely to prevent or mitigate the occurrence of the identified risks, particularly the key risks.
- 3.3.4 Internal Auditors should use the template in Annex IV-1 to document the engagement risk assessment.

3.4 Assessing Internal Controls

- 3.4.1 Control is any action taken by Management or its staff to manage risk and enhance the likelihood of achieving established goals and objectives. Controls minimize both the likelihood of risks materializing and the likely impact of the risk should it materialize. It also safeguards assets and protects reputation and human resources. Internal Auditors should review Chapter II of this Manual, which discusses the many aspects of Internal Controls. Using the guidelines, the Internal Auditor should gain an understanding of the Auditee's Internal Control Framework and general approach to controls and monitoring. Refer to PA 2200-2 paragraphs 4 and 5 on the nature of key controls and possible approaches for testing them.

3.4.2 The Internal Auditor should first review the Annual Plan documentation to determine if any specific control weaknesses have already been identified in respect of the audit area. Following this and after obtaining a clear understanding of the key risks to the achievement of organizational objectives, Auditee's control objectives, and the Auditee's Internal Control Framework, the Internal Auditor should:

- (i) Identify and document the related controls that Management asserts have been put in place. The documentation could be in narrative form – i.e. a sequential description of every step in the control process or in the form of a Flowchart (using Visio, Excel or Word). Many organizational units may have documented their control processes in narrative or flowchart form. Some of these may also be contained in job descriptions. Internal Auditors can use such documentation, but should confirm with Management that it is current and actually reflects the process.
- (ii) Where appropriate, the Internal Auditor should conduct some preliminary tests to determine if the internal controls are working as designed. Such tests could be in the form of “walk through” tests, which uses a small sample of transactions and tests every step of the documented control process. In testing controls, the Internal Auditor should pay particular attention to the extent to which it might be possible to rely upon detective or monitoring controls, as these may reduce the necessity for extensive testing of preventive controls. For example, a manager may have established a quality review team to review a sample of files or transactions on a regular basis. If this monitoring activity is tested and considered to be reliable and as being capable of detecting material errors, then testing a small sample of original files or transactions through the entire process should be sufficient to provide the Internal Auditor sufficient assurance. Refer to Chapter VI of the Manual on sampling techniques.
- (iii) After documenting and, where appropriate, testing the control processes, the Internal Auditor should evaluate the effectiveness of the control in mitigating every risk identified in paragraph 3.3 above. The control reviews should be relevant to the audit objective and be tailored to the specific client and the client's objectives. For example, if the audit is being done on the procurement function, then the Auditor's reviews should address risk in relation to: (a) the quality of goods; (b) timely delivery; (c) proper quantity of goods; and (d) adherence to competitive practices, etc.
- (iv) Assess the cost efficiency of the internal controls and determine if the risks warrant such controls.

3.5 Preliminary conclusions - possible suspension of the Audit

3.5.1 After concluding the risk and internal control assessments, the CIA should undertake a preliminary review to determine if the audit should proceed. The analysis may indicate a satisfactory or unsatisfactory condition. The CIA may decide to close or suspend the audit as follows:

- (i) The assessments and limited tests may indicate that the Auditee has identified risks and has established strong internal controls and they are operating effectively. As a result, the probability of finding any significant issue that may be useful to Management is minimal or negligible. In order to use scarce audit resources more usefully, the CIA can suspend the audit and report to the Chief Executive and Senior Management the audit conclusion.

- (ii) There is an absence of even basic controls and the Auditee accepts the need for immediate improvement action. Unless, fraud is suspected, the CIA can recommend that the Auditee seek assistance to establish the basic elements of a proper management control framework. Under this circumstance, the CIA may use professional judgment to report the situation to the Chief Executive Officer with a recommendation that proper management controls are established within a defined period and until then the audit be deferred or suspended.

3.5.2 In all other cases, the CIA should proceed to the next step in the planning phase.

3.6 Review and Refine Audit Objectives

- 3.6.1 Audit objectives are what the auditor intends to accomplish. It identifies the subject matter and the expected outcomes. Often, the objective can also be thought of as questions the auditor seeks to answer.
- 3.6.2 Objectives may be focused on key generic internal auditing outcomes, e.g. assurance with respect to risk management, controls, governance, or may be focused on specific high-risk issues or concerns identified during the planning phase. Objectives should therefore be carefully considered and clearly stated in such a way that a conclusion with respect to each is possible.
- 3.6.3 Once an understanding of the program or activity has been acquired and the assessment of risks has been completed, including any limited testing of controls, the Internal Auditor and the CIA should evaluate each preliminary Audit objective and determine if it is adequate to cover all the significant issues that need to be addressed in the subject area. Based on this evaluation, the Internal Auditor and the CIA should make such amendments to the audit objectives as are necessary. Refer to IIA Practice Advisory 2210-1: Engagement Objectives.
- 3.6.4 In some cases, the audit objective may seek to answer multiple questions or address multiple issues within one area. The Internal Auditor and the CIA should use their professional judgment to determine if it would be more optimal to classify each of the questions or issues as separate audit objectives. Alternatively, the audit objective could be retained as one, but supported by two or more sub-objectives. The accomplishment of the sub-objectives would be seen as accomplishing the main objective as a whole. As stated, above, care should be taken in defining the objectives so that a clear conclusion can be made in respect of each.

3.7 Review and Refine Scope of Audit

3.7.1 Scope is the:

- (i) Areas, processes, activities, or systems that will be the subject of the audit and to which the audit objective and the conclusions will apply. This could cover one or more organizational units and geographical locations. However, care must be taken to clearly define this.
- (ii) Time period covered by the audit, for example, the period or fiscal year during which files or transactions to be examined were originally prepared.

- 3.7.2 Scope constitutes the universe or population with respect to the particular audit. Reviews, tests, and analysis will be confined to those elements that form part of the population. In some cases the boundaries may be unclear. For instance in an audit of “payment of all invoices and claims by the Treasury”, the audit is not focusing on the events that gave rise to the invoice in the first place – such as whether a procurement invoice relates to a properly procured service or goods. In such instances, the scope must be clearly defined and also clearly exclude those systems that may be associated but are not the subject of audit.
- 3.7.3 At this point, it is essential that the Internal Auditor needs to carefully consider whether the Scope established in the first instance is reasonable to accomplish the audit objective. The scope limits the applicability of the audit objectives. For instance, if testing and review is confined to only one month, the findings though can sometimes be extrapolated using meaningful analysis, can in general only be confined to that month. Sometimes, during the preliminary review phase, Internal Auditors may have reason to believe that certain abnormalities may extend further over a period of time or to other organizational and geographical areas. Such instances should be carefully considered and the Scope should be refined, as is necessary, taking into account its likely impact on the audit objective and the subsequent findings.

3.8 Define and Establish Audit Criteria

- 3.8.1 Every audit objective either explicitly or implicitly implies an Auditee to have attained a certain level of performance. Audit Criteria are desired standards of performance for the programme or operation, against which the Internal Auditor measures or evaluates the activity or performance of the Auditee. Criteria may be in many forms, and determined by, but not limited to the following:
- (i) Acts of Parliament, Rules and Regulations.
 - (ii) Policies and targets defined in programme documents submitted to the Parliament, Cabinet and central agencies.
 - (iii) Best practices within RGoB or standards established by national and international institutions.
 - (iv) Technically developed standards or norms.
 - (v) Contract or grant terms.
 - (vi) Standards that the Auditees themselves would have established to evaluate their performance.
 - (vii) In some instances, criteria can be common sense. For instance an audit seeking to determine if there is an effective control over physical properties, would establish, among others, the criteria that an independent party regularly checks the existence of the properties.

- 3.8.2 It is, therefore necessary for the Internal Auditor to establish Criteria against which each objective or sub-objective will be measured. Audit criteria should be reasonable and attainable standards of performance and controls that can be used to assess and measure compliance, the adequacy of systems and practices, and the economy, efficiency and cost effectiveness of operations. Audit criteria provide a basis for developing audit observations and formulating conclusions.
- 3.8.3 Criteria suitable for audit purposes must be appropriate to the nature of the audit and must be relevant, and reliable. The CIA must review and discuss the proposed audit criteria with the Auditee, particularly when there are no generally accepted criteria, to obtain an acknowledgement that the criteria are suitable for the audit. If agreement on the audit criteria cannot be reached, this should be reflected in the planning documentation, with an explanation as to why the auditor believes the criteria remains appropriate.

3.9 Establish Audit Methodologies and Audit Programmes.

- 3.9.1 Once the audit objectives, scope and criteria have been clearly established, the audit manager needs to design a methodology or an approach to carrying out the audit that will provide the most meaningful result in the most cost-effective manner. The efficiency and effectiveness of an audit depend largely on how well the audit program has been designed and executed. Therefore, the audit methodology should be properly designed to obtain sufficient and appropriate audit evidence so that conclusions can be drawn in respect of each of the audit objectives.
- 3.9.2 The key component of an effective audit program is the tests and procedures to be followed in gathering and analyzing audit evidence. The tests and procedures should be structured and described so that it is clear to which audit objective and to which audit criterion each procedure is directly linked. The nature of evidence and the methods for collecting the evidence is outlined in Chapter IV. The CIA and Internal Auditors should review the guidelines when designing the Audit Programme.
- 3.9.3 In developing the audit programme Internal Auditors should bear in mind that substantial evidence will be required to reach a finding or conclusion with a high degree of confidence in respect of the following important elements related to the Audit Objective and Criteria:
- (i) **Condition** - The condition is a factual statement that describes the state of the audited area based on evidence collected from the audit. The Internal Auditor will compare the condition (what was found) with the audit criteria (what is expected or the desired state) to arrive at conclusions. It answers each audit objective either positively or negatively. The condition describes what the Auditee did or is doing – i.e. the actual state of affairs. In determining the ‘condition’, the Auditor should collect background information about the Auditee’s systems and procedures and a description of how the systems and procedures are put into practice.
 - (ii) **Cause** – if the condition is different from the criteria (desired or expected state), sufficient evidence will be required to determine the cause of the deviation of the existing state from the criteria. In order to make effective audit recommendations to correct a defective condition, the Internal Auditor needs to be able to identify and understand the root causes for the condition, although there may be more than one cause.

Therefore, the underlying or root cause of the condition, which most likely could be due to weaknesses associated with policies, procedures and practices established by management, non compliance with ‘hard controls’ such as laws, regulations or with ‘soft controls’ such as poorly trained, unqualified or inexperienced staff. Remedying the cause should prevent recurrence of the condition. Cause identification could include the following:

- (a) Specific actions or inactions by officials. – e.g. risks were not properly identified.
 - (b) Failure to establish effective “hard and soft” controls.
 - (c) Lack of clear directions or instructions, misunderstanding or no understanding, incompetence and a variety of other reasons.
 - (d) Management override of controls and collusion by staff.
- (iii) **Effect** – of the risk or exposure and the consequent actual and likely impact of the deficiency on the organization. Where possible, Internal Auditors should:
- (a) Express the impact in quantitative terms.
 - (b) State the impact of the deficiency or adverse condition on the relevant programme or activity in terms of achieving its objectives.
 - (c) Comment on whether the impact on the program or function is ongoing or represents a one-time occurrence.

3.9.4 Taking the above into account, the Internal Auditor and CIA should design and establish a detailed **Audit Programme** (a plan of action) consisting of audit tests and procedures in respect of each audit objective – basically to collect sufficient and appropriate evidence with respect to the Condition, the Cause and the Effect outlined in the paragraph 3.9.2 above. The design of the Audit Programme should reflect the exercise of due care and compliance with professional standards and policies.

3.9.5 The Audit Programme should specify:

- (i) What is to be done – i.e. the specific areas that are to be reviewed.
- (ii) How is it to be done – for example, by selecting and testing a random or representative sample of transactions for specific attributes, interviewing specific staff, soliciting information through questionnaire, substantive tests etc.
- (iii) Why is it being done – i.e. the work should be related it to the objective and criteria.
- (iv) When is it to be done.
- (v) Who in the audit team will perform each of the programmed tasks.

3.9.6 The Audit Programme should be flexible for the use of initiative and sound judgment in deviating from prescribed procedures or extending the audit work where warranted.

3.9.7 The CIA should use the checklist provided in Annex IV-2 to review the relevance and adequacy of an Audit Programme.

3.10 Planning Stage Documents

3.10.1 The CIA and the Internal Auditor should ensure that the documents, data, reports etc collected throughout each stage of the planning phase are properly marked and referenced as part of the Working Papers to support the various decisions made during the planning process. This should particularly include:

- (i) Significant audit issues and the reasons for pursuing them further (e.g. the results of the risk and internal assessment).
- (ii) Audit objectives.
- (iii) Audit scope, i.e. the areas, activities, systems, or processes to be examined, together with the rationale for not pursuing any related ones.
- (iv) Audit criteria against which assessments will be made.
- (v) Approach or methodology that will be used for the engagement
- (vi) The projected timeline for the audit and resource requirements.

4. Conducting the Audit Engagement (Fieldwork)

4.1 The purpose of the conducting the audit engagement is to gather sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified in the planning phase. The Internal Auditor should execute all the tasks on the basis of Audit Programmes prepared at the end of the Planning Phase of the Audit Engagement.

4.2 Entry Meeting

4.2.1 Prior to commencing the fieldwork, the CIA should convene a meeting with the Auditee and other senior staff to discuss the next stage of the audit. The agenda for the meeting should include the following:

- (i) **Introductions** – identifying members of the audit team and their areas of responsibility as well as key Auditee staff and their areas of responsibility.
- (ii) **The audit objectives and scope** - including any limitations or exclusions.
- (iii) **The audit criteria** – to be used in evaluating the audit objective – normally related to the achievement of the organizational and operational objectives.
- (iv) **The audit process** - the approach or methodology adopted for the audit, the schedule (audit timing), and the locations where the audit will take place.

- (v) **Expectations** – that the Internal Auditor has for Auditee cooperation and involvement and the Auditee has in terms of professional conduct and respect of the Auditee's environment.
- (vi) **Debriefing process** - on the audit findings and the reporting process.

4.2.2 After the entrance meeting audit team members will normally meet individually with the supervisors responsible for the activity, organization or program for which they have been assigned responsibility. This meeting can be used to gain an understanding of how the supervisor's responsibilities are carried out, to obtain access to required documentation, and to meet other staff.

4.3 Monitoring quality of execution and progress of work

- 4.3.1 As the execution of the work programme proceeds, it may become necessary to make certain revisions. Internal Auditors should be sensitive as to the purpose of the work programme and what it expects to achieve. When in doubt, this should be reviewed as early as possible in the audit process in order to minimize wasted effort.
- 4.3.2 Likewise, the scope of the audit may also occasionally be required to be amended in order to capture useful additional evidence. In addition, the extent of testing (for example instead of testing a sample of 50, it may be necessary to sample 100) may also be required to be extended. This may particularly be necessary when a fraud or other serious deficiencies, such as misinterpretation of a rule, is suspected and it may become necessary to fully quantify the effect of that deficiency.
- 4.3.3 When there is adequate evidence to substantiate that a fraud has indeed taken place, the Internal Auditor should consult with the CIA on the steps to be taken – this should include the necessity to protect the evidence and inform appropriate levels of senior management.
- 4.3.4 Internal Auditors should take care to ensure that changes to the audit programme do not impact the audit objective, the audit criteria or time schedules. Internal Auditors should consult with and obtain the approval of the CIA for any changes in the work programme.
- 4.3.5 Internal Auditors should ensure that evidence is properly recorded in appropriate worksheets, supported with copies of documents when deemed necessary. Further guidance on preparation of Working Papers is provided in Chapter IV.
- 4.3.6 As the work progresses, the Internal Auditor should complete in respect of each Audit Objective or Sub-objective the Audit Observation Worksheet provided in Annex IV-3. While doing so, the Internal Auditors should continuously evaluate the evidence is being collected to make a conclusion on the 'condition'. And if the 'condition' is considered to be defective, they should consider whether the evidence would be sufficient to determine the cause and the effect. If additional testing and evidence is considered to be necessary to minimize audit risk, then the CIA should be consulted as per paragraph 4.3.3 and 4.3.4 above and action taken accordingly.

4.4 Developing Recommendations

- 4.4.1 Recommendations describe the course of action management should follow to rectify deficiencies by addressing underlying causes. These may include weaknesses in systems and/or controls. After identifying a defective condition and the underlying causes,

Internal Auditors should formulate recommendation(s) for corrective actions. Recommendations should not be developed in a vacuum but should be discussed with the client, considered in the light of best practice, and take into account costs and other factors in the client's working environment.

- 4.4.2. Recommendations should be action-oriented, convincing, well supported, and effective. When appropriately implemented, they should get the desired beneficial results. Recommendations should be:
- (i) **Properly directed** –to those who have responsibility and authority to act on them. It must be clear who should be responsible for any corrective action.
 - (ii) **Brief** - without indicating specifically all the actions that are necessary for corrective action. For instance, the Auditor should not have to tell the client how to develop a system, but they should be specific about the system that needs improvement and the objectives that should be achieved by the change.
 - (iii) **Convincing** – and well supported by facts and should flow logically from the findings.
 - (iv) **Effective** - so as to provide reasonable assurance that the proposed recommendation will correct an identified problem or remove a root cause and will result in significant improvements within the foreseeable future.
 - (v) **Cost Effective** – so that it will be readily embraced by Management. Recommendations should be made only after the costs of acting on them have been considered. Offsetting costs should be considered. Favorable consideration of a recommendation is more likely if the report makes it apparent that the recommendation was made with knowledge of offsetting costs. Recommendations that the client must comply with rules and regulations should propose the least costly basis for effective compliance. In other instances, a Regulation or Rule may no longer be relevant or the cost of implementing may far outweigh the likely benefit. In such cases, the Internal Auditor should recommend that the regulation or rule be amended or removed, as appropriate. In making such a recommendation, due diligence should be exercised carefully taking into account all possibilities.

4.5 Liaison with the Auditee and other senior staff during fieldwork

- 4.5.1 Throughout the audit, the Chief Internal Audit should have discussions with the Auditee and the senior staff of the Auditee to review and discuss observations and findings and potential recommendations. This helps ensure that all pertinent information has been considered in developing conclusions and provides an opportunity for the audit team and the Auditee to work to develop effective solutions to identified deficiencies. This process is likely to result in more prompt corrective actions. At the end of the audit, this informal communication process is formalized through closing or exit meetings and written reports.

4.6 Completion of fieldwork and exit meeting with Auditee

- 4.6.1 Upon completion of the fieldwork, the CIA and the Internal Auditors should consider if all the necessary evidence to support findings have been properly analyzed, evaluated and recorded in the Audit Observation Worksheet (Annex IV-3). The Checklist in Annex IV-4 will facilitate such a review.

- 4.6.2 At this stage, the CIA should convene a formal exit meeting with the Auditee and other senior managers as necessary and appropriate to discuss all significant audit findings and conclusions before the Audit Report is drafted. This formal debriefing helps ensure that:
- (i) There are no “surprises” with respect to reporting results.
 - (ii) There have been no misunderstandings or misinterpretations.
 - (iii) The Internal Auditor has considered all relevant evidence and becomes aware of any corrective action that has already been initiated by the Auditee.
 - (iv) The likelihood of the Auditee embracing the audit findings and the proposed recommendations is increased.
- 4.6.3 The debriefing meeting may also be used to discuss points that are of interest but are not significant enough for inclusion in the written audit report. These findings of lesser significance may be addressed in a management letter to the Auditee.
- 4.6.4 Chapter V provides guidelines on the reporting the results of the audit.

TEMPLATE FOR DOCUMENTING ENGAGEMENT RISK ASSESSMENT

1. **Audit entity objectives:** The key objectives of the audit entity, including those that may not be specifically stated but address the entity's obligations to account for results achieved and for the efficient and effective use of resources.
2. **Key risks:** The events or circumstances that could significantly prevent the audit entity from achieving its organizational and operational objectives.
3. **Effect:** Each risk is evaluated as to whether the effect on achievement of objectives would be low, medium, or high should it occur.
4. **Likelihood:** Each risk is evaluated as to whether the likelihood that it will occur is low, medium, or high.
5. **Risk exposure:** The audit will normally focus on the risks with a combined effect and likelihood assessment in the medium or high exposure range.
6. **Summary of key control considerations:** From the engagement planning, the known control processes associated with the risks with a medium or high exposure is documented. A preliminary assessment should be made as to whether or not the control appears to adequately mitigate the risk. This assessment will guide the extent of testing to be undertaken. (A reference to the documentation supporting the identification and assessment may be included.)
7. **Inclusion in audit:** An indication as to whether or not the risk should (and can) be addressed in the objectives and scope of the audit.
8. **Engagement objectives and scope:** Considering the audit entity objectives, the identified medium to high risks, and the availability of resources, whether the preliminary audit objectives and scope should be amended.

CHECKLIST FOR REVIEWING AN AUDIT PROGRAMME

Considerations

1. Is it clear which audit objective and which related criteria each section of the audit program is intended to address?
2. Does the audit program cover all the audit objectives and all the criteria related to each audit objective?
3. Is the nature of evidence to be sought clear and appropriate for the expected audit accomplishments, e.g. to provide an assurance opinion or conclusion?
4. Is the evidence to be sought available?
5. Have the methods to be used to gather, analyze, and evaluate the evidence been clearly identified and are they appropriate, e.g. cost-effective, relevant, to generate sufficient reliable evidence?
6. Can the methods be completed in the allocated time frames, and is there sufficient flexibility built in to allow for unexpected opportunities or issues?
7. Do the Internal Auditors have the capability to gather, analyze, and evaluate the evidence sought?
8. Can the evidence to be gathered support coming to conclusions on other criteria, either related to the same objective or to another objective?
9. Can the evidence to be gathered be sufficient to form a conclusion or an opinion on the condition (positive or negative) of the activities, operations and programmes, processes that the subject of audit.
10. If the condition is found to be deficient, would it be possible to identify the root causes of the condition.
11. Would it possible to determine the effect or impact of a defective condition on the subject area or the organization.

AUDIT OBSERVATION WORKSHEET

	Working Paper Reference
<u>Audit objective:</u>	
<u>Activity or function examined (scope):</u>	
<u>Audit criterion:</u>	
<u>Audit Tests/ Procedures applied</u>	
<u>Audit observation:</u>	
<u>Supporting evidence:</u>	
<u>Cause:</u>	
<u>Effect:</u>	
<u>Potential recommendations:</u>	
<u>Management comments:</u>	
Prepared by: Date:	Approved by: Date:

ANNEX IV - 4

CHECKLIST FOR REVIEWING AUDIT OBSERVATIONS AND SUPPORTING EVIDENCE

A.	<u>Key Considerations: Audit Observation Worksheets</u>
1.	Is the observation clear, i.e. does it provide sufficient information in a logical order to encourage positive management reaction?
2.	Does the observation clearly address a criterion (and its related objective) of the engagement?
3.	Is the cause of the problem or situation clearly defined?
4.	Is the impact or significance (effect) of the situation clear, and does it justify remedial action?
5.	If the recommendation were implemented, would the situation causing the observation be resolved?
6.	Is the recommendation within the Auditee's capacity or capability to implement?
7.	Can the recommendation be implemented cost-effectively?
8.	Is the individual (or position) to whom the recommendation is addressed clear, and does the individual have the necessary authority to implement it?
B.	<u>Key Considerations: Evidence</u>
1.	Is the evidence supportive of the observation, and is it sufficient to lead to an opinion or conclusion on assurance?
2.	Are observation sheets cross-referenced appropriately to the supporting evidence, e.g. cause-effect analysis, impact analysis?
3.	Does the cross-referenced documentation demonstrate that the internal auditor has identified, analyzed, and evaluated sufficient information to achieve the engagement objectives, e.g. every program step has been completed or reasons for omission are clearly documented and appropriately approved?