Tackling a Challenging Audit

Objective

Your assignment

Audit marijuana dispensaries statewide.

Audit cash at the hospital.
Go audit Scotland.
You have two weeks.

Audit corporate strategy.
Is the school nutrition program effective?

Definition of an Audit

Evaluation of a SUBJECT MATTER against a given CRITERIA

Does A = B?

Leita@yello
How do audits differ?

- Subject matter
- Criteria
- Level of assurance
- Standards used
When you give ASSURANCE

You have made a PROMISE.

I will love and honor you until death do us part.

Yes. I can take care of your cat while you are gone this weekend.
The process is efficient.
The process is quick.

The organization is in compliance.
The IT department complies with the computer hardware purchasing policies.
What we promise

YB 2011 7.30 We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Excerpt from the promise

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.
GAO mentions objectives 130 times!

IIA mentions objectives 41 times!
It is important for internal auditors to establish objectives that have a clear purpose, are concise, and link to the risk assessment.

Internal auditors must also identify adequate criteria to evaluate the governance, risk management, and controls of the area or process under review and determine whether the business objectives and goals have been accomplished. Identifying such criteria ensures that assurance engagements are measurable, practical, and aligned with the objectives of both the organization and the area or process under review.

Audit Criteria

GAGAS 2.10 Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria.
Audit Criteria?

1. Federal Policy XYZ says grantees will *blah blah blah*  
   - Yes

2. Good business practice dictates *blah blah blah*  
   - No

Yellow Book Criteria

6.37 Auditors should identify criteria. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.

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STANDARD 2210.A3

The IIA’s take on criteria

Adequate criteria are needed to evaluate controls. Internal auditors must evaluate 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.

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Does the foster care program keep Texas children safe?
IIA says get agreement!

To avoid misinterpretation or challenge by any personnel responsible for the area or process under review, the evaluation criteria should be relevant, reliable, and documented.

Elements of a Finding

**Title**

**CONDITION**

**EFFECT**

**CAUSE**

**CRITERIA**

**RECOMMENDATION**

Who requires the elements?

**GAO**

Auditors should use the elements

**IIA**

Advises auditors to use the elements

**AICPA**

Does not seek the transparency and accountability the elements foster
2 Deliverables with CRITERIA in both

1. Audit conclusion against the objective
2. Findings using the five elements

**Conclusion:** *In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Corporation as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with Generally Accepted Accounting Principles.*

**Objective:** *Are the financial statements presented in accordance with GAAP?*
Squirrel Words

- Material
- Significant
- Appears

Conclusion & Objective
Should Mirror Each Other
6.08 The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included and may also include the potential findings and reporting elements that the auditors expect to develop.

Audit objectives can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.

A good audit objective...

- Identifies the subject of the audit
- Identifies a criteria
- Identifies a performance aspect, if applicable
- Is a close-ended question
A good audit objective…

• Identifies the subject of the audit
• Identifies a criteria
• Identifies a performance aspect, if applicable
• Is a close-ended question
Audit Europe!

Audit Italy!
A good audit objective…

- Identifies the subject of the audit
- Identifies a criteria
- **Identifies a performance aspect, if applicable**
- Is a close-ended question
<table>
<thead>
<tr>
<th>No</th>
<th>Yes</th>
</tr>
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<tbody>
<tr>
<td>Economical</td>
<td>Timely</td>
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<td>Efficient</td>
<td>Reliable</td>
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<tr>
<td>Effective</td>
<td>Accurate</td>
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<td></td>
<td>Complete</td>
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</tbody>
</table>
IIA Framework

PA 2210-1:1 – Planning should be documented. Engagement objectives and scope of work should be established. Engagement objectives are broad statements (that) define what the engagement is intended to accomplish. Engagement procedures are the means to attain engagement objectives. Engagement objectives and procedures, taken together, define the scope of the internal auditor’s work.

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The Worst Audit Ever!
**Objective**

Is the computer system used to issue lottery tickets reliable as defined by State Information System Requirements Section 724?

**Conclusion**

The computer system used to issue lottery tickets is reliable as defined by State Information System Requirements Section 724.

**Identify ways of making the system work better**
“Here are the ways to make the system work better bla bla bla”

A good audit objective...

- Identifies the subject of the audit
- Identifies a criteria
- Identifies a performance aspect, if applicable
- Is a close-ended question
Determine whether the entity is using the optimum amount of resources for producing or delivering the appropriate quality and quantity of goods and services in a timely manner.

Determine whether the subsidiary is following corporate purchasing policies and procedures.
Are all students in Round Rock ISD who receive free lunch eligible as defined by the compliance supplement for the National School Lunch Program?

Evaluate the County’s efforts related to the safety of bridge structures as compared to laws, regulations, policies, procedures, and industry practices.
Is the plant protecting production equipment from theft?

A good audit objective…

- Identifies the subject of the audit
- Identifies a criteria
- Identifies a performance aspect, if applicable
- Is a close-ended question