Audit Planning

The Basics of Internal Auditing
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“The will to succeed is important; but what is more important is the will to prepare.”
- Bob Knight

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.”
— Abraham Lincoln

“Being busy does not always mean real work. The object of all work is production or accomplishment and to either of these ends there must be forethought, system, planning, intelligence, and honest purpose, as well as perspiration. Seeming to do is not doing.”
- Thomas A. Edison

2200 - Engagement Planning

Internal auditors shall develop and record a plan for each engagement, including the **scope, objectives, timing, and resource allocations.**

Management Expectation of Specific Professional Outcomes from Internal Audit

- Audits that are effectively planned and executed
  Regular audit status reports
- The opportunity to discuss issues before they are communicated broadly
- Specific suggestions about how to improve the effectiveness of operations.
Internal Audit Planning Today and in the Future

The basic tenets of finance, operations, compliance and strategic risks will stay – and internal audit will go where the risks lie within those four areas.

Internal audit will need to continue assist management to help avoid surprises. Be able to thoughtfully identify emerging risks.

2201-Planning Considerations

In planning the engagement, internal auditors should consider:

• The objectives of the activity being reviewed and the means by which the activity controls its performance and achieves those objectives;

Planning Considerations

The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact and/or likelihood of risk is kept to an acceptable level;
Planning Considerations

The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model;

Planning Considerations

The opportunities for making significant improvements to the activity’s risk management and control systems.

Practice Advisory 2210.A1-1
Risk Assessment in Engagement Planning:

- Consider Management’s Assessment of Risk Relative to the Activity Under Review
- Obtain or Update Background Information About the Activity Under Review
- If Appropriate, Conduct a Survey to Become Familiar with the Activities, Risk and Controls
Preliminary Research

Obtain background information to become familiar with the audit entity.

- Statutes/Rules/Directives
- Program Procedures
- Budget Information
- Process Flow
- Prior Audits
- Reporting Information
- Contract/Grant Docs
- Financial Transactions

During the Planning Portion of the Audit, the Auditor:

- Notifies the client of the audit
- Discusses the scope and objectives of the examination in a formal meeting with management
- Gather information on important processes
- Evaluates existing controls; and
- Plan the remaining audit steps.

Audit Announcement

The client is informed of the audit through an announcement or engagement letter from the Inspector General or Audit Director. This letter communicates the scope and objectives of the audit, the auditors assigned to the project and other relevant information.
2210 Engagement Objectives:
Objectives should be established for each engagement.
Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment. The internal auditor should consider the probability of significant errors, irregularities, non-compliance, and other exposures when developing the engagement objectives.

What are Objectives?
• Objectives are what the audit is to accomplish.
• Objectives identify the audit subjects and the performance aspects to be tested.

Beginning the Process
• Why Develop Audit Objectives?
• What Does an Audit Objective Identify?
• How Do You Phrase Objectives?
“Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.”
- Albert Einstein

Audit Objectives Should Relate to At Least One of the Following:

- Effectiveness
- Economy
- Efficiency
- Compliance
- Reliability of Information
- Safeguarding Assets

Example

Original Objective –
- To Assess the Department’s Efforts to Reduce Procurement Costs and
- to Determine Whether Cost Savings Can be Improved.
Example

Improved Objective Statements –
• To Determine if Lump Sum Contracts Were More Cost Effective than Cost Plus Contracts.
• To Determine if the Operating Margin in Completed Lump Sum Contracts was Reasonable.

Example

Original Objective –
To determine whether
• the contractor is in compliance with the terms of the contract agreement, and
• revenue is reported accurately and monitored appropriately.

Example

Improved Objective Statement –
To Determine
• whether the contractor is in compliance with the agreement minimum accounting requirements,
• whether contract revenue is accurately reported, and
• the level of Division agreement management controls and oversight.
2220 Engagement Scope

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

- The scope must consider relevant systems, records, personnel, and physical properties.
- Internal auditors must ensure the scope is sufficient to address the agreed-upon objectives.

2230 Engagement Resource Allocation

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

For example, when planning the audit, internal auditors should consider:

- The number and experience level of the internal audit staff.
- Knowledge, skills, and other competencies of the internal audit staff when selecting internal auditors for the engagement.
- Availability of external resources where additional knowledge and competencies are required.
- Training needs of internal auditors as each engagement assignment serves as a basis for meeting the internal audit activity’s developmental needs.
Timing

When developing the scope, objectives, and resource needs for the audit, care should be taken to ensure the engagement is planned to ensure timely completion of audit testing and report to management.

Resources

Internal Audit Back to Basics: How do I...Plan an Audit?
http://www.theiia.org/intAuditor/back-to-basics/2008/planning-for-success-10-06/

Practice Advisory: Engagement Objectives2210-
https://na.theiia.org/standards-guidance/Member%20Documents/PA_2210-1.pdf

Practice Advisory 2230-1: Engagement Resource Allocation
https://na.theiia.org/standards-guidance/Member%20Documents/PA_2230-1.pdf

Tomorrow's Best Practices
http://www.theiia.org/intauditor/

Thank you

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