The Audit Process

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Agenda

• Risk Assessment/Engagement Planning
• Preliminary Survey of Operations
• Developing Audit Objectives
• Engagement Notification
• Entrance Conference
• Preparing the Audit Program
• Fieldwork
• Working Papers

Where do audits come from?

• Why are we looking at this?
• Who came up with this topic?
• Can we look at something else instead?
It All Starts With Risk

IIA Performance Standard 2120
Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

The assessment of risk occurs in two primary instances –

1) At the organizational level
2) At the engagement level
**Organization Risk Assessment**

Organizational Level – agency-wide evaluation of various risk components that results in the annual and long term audit plan.

**Engagement Risk Assessment/Planning**

IIA Performance Standard 2200

Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resources allocation.

**Engagement Planning Considerations**

IIA Performance Standard 2201

In planning the engagement, internal auditors must consider 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.
Preliminary Survey of Operations

The preliminary survey lays the foundation for the audit project and proper organization of work.

Preliminary Survey

The preliminary survey is an overview of the audit topic and provides a firm foundation for the preparation of a risk-based audit program that concentrates on those matters which are of chief interest to management.
Preliminary Survey
1. Are the keys risk areas being monitored?
2. Are inadequate controls and ineffective, inefficient performance being brought to light and corrected?

Preliminary Survey
In the preliminary survey, the auditor gets to know the staff, to understand the operations, and to focus on objectives, controls, and risk. This better equips the auditor to perform an audit that is effective and efficient, rather than an unplanned "haphazard" journey.

Developing Audit Objectives
Engagement Objectives
IIA Performance Standard 2210

Objectives must be established for each engagement.

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.

A2. Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when development the engagement objectives.

A3. Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management has established criteria to determine whether objectives and goals have been accomplished.
Engagement Objectives
Internal auditors establish engagement objectives to address the risks associated with the activity under review. For planned engagements, the objectives proceed and align to those initially identified during the risk assessment process from which the internal audit plan is derived.

Engagement Objectives
The risk assessment during the engagement’s planning phase is used to further define the initial objectives and identify other significant areas of concern.

Engagement Notification
Management should be contacted prior to the intended start of an engagement in order to schedule a preliminary assessment.
Engagement Notification

A formal engagement letter, to include the engagement scope, is sent to the senior executive responsible for an activity. The letter should ideally detail specific information needed for the engagement and any logistical assistance that might be required.

Entrance Conference

The entrance conference provides the opportunity for the audit team and the auditee to discuss the scope and schedule for the audit.

Entrance Conference

At the meeting, the audit team outlines audit objectives, approximate time schedules, types of auditing tests, and the process of reporting.
WHAT NOT TO DO AT AN ENTRANCE CONFERENCE

IIA Audit TV – Richard Chambers, President and CEO IIA – 5
Things to Avoid at an Entrance Conference

IIA Performance Standard 2240
Engagement Work Program

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

IIA Performance Standard 2240
Engagement Work Program

Work programs must include the procedures for identifying, analyzing, evaluating and documenting information during the engagement.
IIA Performance Standard 2240
Engagement Work Program

Work programs must be approved prior to its implementation, and any adjustment approved promptly.

Audit Programs

An audit program is a detailed plan of action for an audit examination.

Audit Programs

The best audit programs are based on the auditor’s understanding of the functions and objectives of the entity being audited and the control needs to see that the objectives are met.
Audit Programs

A thoughtful audit program is essential to the success of the audit project. The auditor in developing the program should give serious consideration to the identified audit risks.

Audit Programs

Audit program should ideally be developed to determine whether management’s objectives are being carried out and whether adequate and effective controls will provide reasonable assurance that objectives will be met.

Fieldwork

Fieldwork encompasses all the efforts of the internal auditor to accumulate, classify, and appraise information so as to enable the auditor to form an opinion and to make any needed recommendations for improvement.
Working Papers Generally

Working papers document the information obtained, the analyses made, and the support for the conclusions and engagement results.

Working papers are reviewed by internal audit management.

Working Papers Generally

- Aid in the planning, performance and review of engagements
- Provide the principal support for engagement results
- Document whether engagement objectives were achieved

Working Papers Generally

- Support the accuracy and completeness of the work performed.
- Provide a basis for the internal audit activity’s quality assurance and improvement program.
- Facilitate third party-reviews.
Your organization's organization, design and content of engagement working papers depends on the engagement's nature and objectives and the organization's needs.

The Inspector General/Director of Audit will establish working paper policies and criteria for your respective organization.

Working Papers Nightmare
Auditor Challenge

One of the most difficult challenges for an auditor may be to step back from the details to develop a high-level message.

Auditor Challenge

Your ability to “sell” your message impacts the overall audit, management “buy-in” and any corrective actions taken on the audit findings.

Good Luck!

You have joined a valued-added profession and your ability to begins with learning the fundamentals of auditing and building upon those skills.
Available Resources for Further Guidance

- IIA - International Professional Practices Framework
- Sawyer’s Guide for Internal Auditors

Questions?

Thank you

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