

Chapter 6

Conducting the Audit Engagement

A. General Considerations

Conducting the audit engagement is the process of gathering audit evidence to be evaluated in support of answering the objectives developed during the planning phase. The approved audit program is the guide for the work performed during this phase. While the auditor should be aware of the possibility of conditions in the field differing from those anticipated in planning, deviations from the approved audit program require approval of audit management.

B. Complete audit program developed in the planning phase

All steps identified in the audit program must be performed, signed off in the program and reviewed by audit management to evidence completion of the full scope of the planned audit. If a step can not be completed, the work papers must include a statement, which is approved by audit management, explaining the situation. If this condition exists the Lead Auditor and audit management must consider whether additional procedures should be identified to satisfy the objective of the eliminated audit step. This consideration will be documented in the audit work papers.

C. Index and file all work papers as developed

All audit work papers are to be indexed and filed in the work papers as they are completed. Refer to the work paper index section in Appendix 5. Each work paper is to be initialed and dated by the auditor completing the work paper.

D. Initial and date steps in audit work program when completed

The auditor completing a step in the audit work program will initial and date that step in the program to indicate completion.

E. Prepare audit point sheets as needed

Audit point sheets are used to document potential audit findings. Point sheets are prepared by the auditor or audit team who identified the finding. Point sheets will be reviewed with audit management at the end of audit fieldwork and may be reviewed by audit management during routine site visits. The point sheet review with audit management will determine whether the potential audit finding will be included in the draft audit report and if any additional audit fieldwork is needed to fully develop the finding.

All point sheets are to be cross-referenced to the audit work papers prior to review with audit management. Each element of the point sheet (i.e. criteria, condition, cause, effect, results of discussion with auditee, etc.) is to be cross-referenced to the audit work papers.

The point sheet provides a standardized format for developing the potential audit finding. GAS refers to the basic elements of a finding as being criteria, condition, cause and effect. Every finding will have a condition and at least one criterion. Cause and effect are necessary only to the extent that a complete answer to the audit objective requires them. The point sheet provides space for each of these elements to be identified and referenced to the supporting audit work papers. A template (located on the Office computer network) is available in Word format for use in preparing each point sheet.

The point sheet is intended to provide a convenient place to summarize all information relative to a potential finding and to support writing up the finding in the audit report. The point sheet should contain enough information to allow preparation of the full finding in the audit report without reference to audit documentation.

Criteria describe what should be happening based upon contracts, agreements, policies or procedures and similar documents or statements by management. We would normally expect to have formal documents establishing the criteria but this may not always be the case. For example, an operating unit may have a standard operating procedure that has been communicated informally. The fact that the procedure is not in writing does not negate its existence. When the criterion is stated in the point sheet (and audit report) all necessary relevant language should be provided. For example, “County wide PPM CW-F-044 Interdepartmental Billings requires each department providing goods or services to other departments or capital projects to develop procedures specifying how billing rates, including applicable overhead rates, will be established. The PPM further requires that the departments submit these procedures to OFMB for review and approval.”

Condition describes what is actually happening which is at variance from what should be happening as described in the criteria above. The auditor needs to avoid stating conclusions at this point and focus on presenting the facts describing what is actually happening. For example the statement “The department did not prepare the procedure required by the PPM” may very well be a statement of fact but it is also a conclusion. Conversely, the statement “The department fiscal manager told us that the department has no procedure on the subject” is a statement of fact (evidence) and is not a conclusion. The condition needs to be sufficiently described so that the reader of the audit report will understand the facts. The auditor should keep in mind that the audit report reader will not have detailed familiarity with the auditee’s operations.

Cause is intended to explain why the condition exists. If identifying a cause is significant to the audit objective then the auditor must develop audit evidence to establish a logical and convincing linkage between the cause and the condition. Identification of a cause may be essential to developing a meaningful recommendation to correct the condition. The auditor must be cautious to avoid stating a cause based on the auditor’s

conclusions or assumptions regarding potential causes, and instead should rely on audit evidence.

Effect is intended to explain what negative things have happened as a result of the condition. If identifying an effect is significant to the audit objective, the auditor must develop audit evidence to establish a logical and convincing linkage between the condition and the effect. Identifying an effect may be essential in explaining the significance of the condition and may also support the audit recommendation.

The auditor may not include a speculative statement of effect. An example of a speculative statement of effect would be to say “Failure to comply with the grant requirements may lead to loss of the grant.”

The auditor may not include a statement of effect which is essentially a restatement of the reported condition. An example of a restatement of condition would be to say “Failure to comply with this procedure would lead to non-compliance with the policy.”

F. Prepare discussion draft audit report for review by Audit Manager

The discussion draft should build upon the foundation of the planning memo by adding a conclusion, findings, recommendations and appropriate descriptive narrative to adequately present the findings and recommendations. During the course of audit fieldwork the auditor should be looking for information which will add to the clarity and understandability of the audit report.

The discussion draft will be prepared at the end of audit field work immediately following the point sheet review. The Lead Auditor is responsible for preparing the discussion draft assisted by other staff assigned to the engagement as necessary or desired. There is a macro driven template for formatting the discussion draft report (also available for other report types) that is to be used for each draft report. The discussion draft will be reviewed by audit management and issued to the auditee (generally by the Lead Auditor) for comment after whatever editing may be necessary. The discussion draft will be discussed with the auditee during the exit conference referenced below.

The discussion draft should flow logically from the audit objectives established in the audit work program with information based on audit point sheets developed during the course of the field work. The discussion draft should be fully indexed to the point sheets and/or the work papers.

The audit work papers will contain a copy of each draft audit report along with all review notes on each draft. Drafts are to be numbered sequentially.

G. The Exit Conference

The exit conference is conducted to receive auditee input on the facts and conclusion(s) presented in the discussion draft report to ensure the accuracy of the report, and to ensure

that the language in the report is balanced and fair. The Lead Auditor is responsible for preparing notes summarizing the discussion at the meeting. Audit management is responsible for making any agreed upon changes to the discussion draft and for adding the section titled “Management Comments and Our Evaluation” to the report, which will then be called a Final Draft, following each recommendation. Audit management will review the final draft report with the meeting notes to ensure that all matters have been appropriately included.