

**AUDIT MANUAL - EXTRACT**

**STANDARD 8 – UNDERTAKING AUDIT WORK**

- 9.1 For each audit assignment, a brief is prepared, discussed and agreed with the relevant line manager(s). These briefs establish the objectives, scope and timing for the assignment, and its resource and reporting requirements.
- 9.2 Assignments intended to provide an audit opinion are undertaken using a risk-based systematic approach.

**Preparation for an Audit**

- 9.3 All audits are based on sound planning and constructive involvement and communication between the client and the auditor. Planning is critical to the success of each audit assignment. Adequate time is set aside to identify priorities, scope, objectives and risks, to allocate resources and to identify how the audit is to be undertaken and controlled.
- 9.4 Planning ensures that auditors understand the client's business and materiality. The aim is to ensure that the proposals satisfy both Internal Audit's and the client's requirements. The responsible auditor will undertake the preparation for an audit, including development of the audit brief and work programme, with input from other audit staff if appropriate.
- 9.5 Preparation comprises four stages:
- Research
  - Audit brief
  - Pre-audit meeting
  - Audit Scope Control Matrix and Test Schedule
- 9.6 This is often an iterative process whereby the audit brief and the audit work programme are refined and informed by subsequent stages of the process, and the order in which they are undertaken may be varied as appropriate.

**Research**

- 9.7 At this stage, it is essential for auditors to gain an understanding of the operation under review to enable them to establish professional credibility with the client. Sources of information include:
- Audit files and working papers
  - Business plans, targets and objectives
  - The Council's risk register
  - External audit and inspection reports
  - Legislation/regulations
  - Council policy documents and financial procedure rules/regulations
  - Reports to Members
  - Financial records
  - The Internet
  - Articles from relevant journals
  - Comparative statistics

### **Production of the Audit Brief**

9.8 The information researched is used to draft the audit brief. This document sets out the details of the project and includes the following as appropriate:

#### **Details of the audit, e.g.:**

- systems boundaries
- business/systems objectives/performance measures
- key risks faced by the service in delivering objectives
- audit objectives
- identification and assessment of risks and controls
- computer applications
- notes of any issues for the auditor to consider

#### **Administrative matters relating to the client, e.g.:**

- key contacts
- personnel and staffing structures
- closure arrangements and reporting lines

#### **Administrative matters relating to the audit, e.g.:**

- the auditor(s) allocated to the assignment
- the timing of the audit (i.e. start/finish dates)

9.9 The purpose of the brief is to ensure that the exact terms and details of the audit have been agreed and understood to the mutual benefit of the auditor and the client. The client is asked to provide comments on the draft audit brief, so that any additional work can be built into the audit at the planning stage. Evidence of agreement to the audit brief is retained on the audit file

### **Pre-Audit Contact**

9.10 Contact prior to the commencement of an audit:

- ensures that senior management have engagement with and ownership of the audit work to be undertaken
- allows the auditor to clarify or obtain further information for the audit brief

9.11 This element of the auditing process ensures that:

- Information about the audit process can be provided to the client if necessary
- Systems objectives and key business risks are identified
- Concerns and expectations are dealt with
- Current and future pressures facing the service are understood
- Input by the client is obtained
- Availability of key staff is identified

### **Audit Scope Control Matrix and Test Schedule**

- 9.12 This document translates the audit brief into a detailed analysis of the areas to be examined and tasks to be performed to satisfy the objectives of the audit.
- 9.13 The Audit Scope Control Matrix and Test Schedule provides a guide to the auditor on the form and structure of the audit without depriving staff of the opportunity for innovation. The purpose of producing one is to provide:
- A well-constructed plan encompassing the scope of an assignment to achieve the audit objectives
  - A record of work to be done
  - A means for management to supervise each audit adequately and review progress
- 9.14 The expected approach for risk-based reviews will involve:
- Documenting the system
  - The identification of expected and actual controls
  - Determination of testing methodologies to examine and validate the adequacy and effectiveness of controls.
- 9.15 The standard audit programmes available from the CIPFA matrices are used for the review of main systems and for the audit of other systems if available.

### **Fieldwork and Testing**

- 9.16 The purpose of fieldwork is to obtain sufficient evidence to form the audit opinion. It is during this phase that the auditor determines whether the controls identified during the planning stages are operating properly and in the manner described by the client, and tests these where appropriate. The extent of testing will depend on the evidence provided by the client to demonstrate that controls are working effectively to manage the risks involved.
- 9.17 As the fieldwork progresses, the auditor keeps the client and their supervisor informed of any significant findings. The aim is to ensure that there are no surprises when the draft audit report is discussed. However, in more complex or serious situations, findings will have to be more formally documented, for example by memos or e-mails, in order to ensure issues are understood between the client and auditor and to enable prompt resolutions of urgent problems.
- 9.18 A closure meeting may be held, where the auditor updates the client on any preliminary findings before leaving site. This presents an opportunity to clear any anomalies or misunderstanding that may have arisen during the review.

### **Recording Audit Assignments**

- 9.19 Internal Audit uses standard documentation and working papers to ensure that standards are maintained.

- 9.20 Working papers are sufficiently complete and detailed to enable an experienced auditor, with no previous connection with the audit, subsequently to ascertain from them what work was performed and to support the conclusions reached.
- 9.21 The Audit Manager has systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions and to demonstrate the adequacy of evidence obtained to support professional judgements.
- 9.22 Standards and retention requirements for all audit records and documentation, whether they are held on paper or electronically and having regard to any statutory requirements are in place. The Audit Manager controls access to audit records and if required, obtains the approval of relevant management before releasing records to external parties.
- 9.23 Audit working papers and files form the main review and assessment tools available to managers and external reviewers of Internal Audit. To aid the review and report production process, points arising from the audit are identified clearly throughout the working papers. This helps to ensure that all issues are discussed with the client and are included in the audit report, where appropriate.
- 9.24 Working papers are those records kept by the auditor of the procedures applied, the tests performed, the information obtained, the discussions held and the pertinent conclusions reached in the assignment. The term 'working papers' covers both manual and electronic documents and includes all the schedules, analyses and documents prepared and gathered during the audit. They should include all the information the auditor considers necessary to provide support for the audit report.
- 9.25 Working papers should fulfil the following objectives:
- Record the work done and evidence gathered
  - Provide details of problems encountered
  - Demonstrate a methodical approach
  - Support the conclusions and recommendations of the audit report
  - Support discussion
  - Facilitate the review of the audit and provide evidence of the review
  - Create background and reference material for future audits
- 9.26 Working papers must be:
- Legible, clear and concise, but with sufficient detail
  - Objective
  - Numbered, dated and signed by the originating auditor
  - Cross-referenced or referenced back to source
  - Relevant
- 9.27 Working papers must not contain:
- Gratuitous comments
  - Jargon or unexplained abbreviations
  - Speculation, unsupported or anecdotal evidence

- Padding or extraneous material
- Information not relevant to the audit

9.28 Working papers covering audit tests should state:

- The details and objectives of the test
- The sample size and how selected
- A summary of the results of the test and the conclusions drawn

9.29 Anecdotal evidence should be treated with caution and should be validated with independent evidence if used in support of conclusions drawn. Good quality evidence, in the form of working papers and detailed notes of interviews, is essential and can be crucial in persuading service management to accept audit points and recommendations.

### **Assignment Reporting**

9.30 The quality and impact of Internal Audit's assurance assignments depends upon their being represented clearly and effectively as reports. Chapter 11 of this manual explains the standards that need to be met and how they can be delivered.

### **Audit Files**

9.30 It is essential that audit files are well structured and properly maintained. This applies to both paper and electronic files. Audit files contain as required:

- Any correspondence, advice or guidance given since the previous audit
- The most recent audit report, and previous audit report(s) where necessary
- System notes, flow charts and Internal Control Questionnaires as appropriate
- Working papers relevant to the last completed audit
- Organisation charts as appropriate
- Council policies and procedures specific to the area being audited (however, it is not necessary to retain copies of general corporate policies, financial regulations, etc on each audit file)

9.31 Audit files are held securely at all times. Files loaned to other review agencies (e.g. external audit) are recorded in accordance with the process agreed by the Audit Manager for loaning files. Due regard is also given to the requirements of the Data Protection Act and the Freedom of Information Act in deciding whether to loan files to third parties.

9.32 In view of the constraints imposed by the Data Protection Act, any paper or electronic records containing personal information, which are not pertinent to the audit, are destroyed at the end of the audit.

9.33 Current audit files, both paper and/or electronic, are retained on site and are readily accessible. The Audit Manager has determined the retention period for audit files.

## Audit Supervision

- 9.34 The audit planning process needs to be complemented by a sound system of control. This serves to demonstrate the quality review and overall project management for the individual assignment.
- 9.35 There is regular contact between the auditor and their supervisor regarding progress on the audit. Where serious problems are encountered discussions take place promptly and action is determined (e.g. additional resources or extension of time). The client is kept informed of progress of the audit, especially if there are any problems or delays in completing the work.
- 9.36 Deviations from the audit assignment brief – such as time taken, objectives or work undertaken - require approval from the Audit Manager.
- 9.37 In order to ensure consistency and compliance with professional standards and audit procedures, all audit work is supervised at appropriate stages throughout the audit, and reviewed and signed off by the appropriate level of audit management, generally the Audit Manager.
- 9.38 The supervisor reviews the draft report and audit file to ensure that the objectives of the audit have been fulfilled and that the conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence.

The review process ensures that:

- All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used
  - Audit files are complete and properly structured
  - The related audit report is complete, accurate, objective, clear, concise, constructive and timely
  - The audit assignment has been completed within the allocated time budgets or that appropriate time variations have been authorised
- 9.39 The management review process is evidenced by the reviewer initialling and dating the appropriate working papers. Issues raised during the review process are recorded and cleared before final sign-off. The officer undertaking the file review aims to complete the process within five days of receipt of the file.

## AUDIT MANUAL - EXTRACT

### 11. STANDARD 10 - REPORTING

#### Principles of reporting

- 11.1 The Audit Manager has determined the way in which audit assignments and their results are reported, subject to the provisions of these standards and the requirements of those charged with governance and any third parties.
- 11.2 The Audit Manager has set standards for reporting, including agreeing reports and the format of reports with the recipient before finalisation, and has made arrangements for the review and approval of reports by audit management before issue.
- 11.3 Reports are clear, concise, and constructive and are issued promptly and within laid-down timescales.
- 11.4 The Audit Manager has direct access to, and freedom to report in his/her own name and without fear or favour to, all officers and members, and particularly to those charged with governance.

#### Assignment reporting

- 11.5 The primary purpose of an internal audit report is to provide independent and objective opinion to the Council on its control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Council's objectives. The aim of every audit report is to:
- (a) Prompt management to implement agreed management actions for change leading to improvement in performance and control
  - (b) Provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management
- 11.6 The audit report is a key part of the process and the culmination of the work undertaken. It provides the only permanent and visible record of views formed, opinions reached and recommendations made. Credibility can be destroyed if a report is inaccurate, badly presented or untimely.
- 11.7 There are various types/levels of audit reporting:
- Audit observations produced and left on site at the end of the visit
  - Reports on minor points and observations
  - Interim reports
  - Formal audit reports
- 11.8 The choice of the audit reporting mechanism depends on:
- The materiality of the system under review
  - The significance of the findings

- The urgency of the findings
  - The intended audience
- 11.9 Audit reports are usually written. However, there may be occasions when reports may be more effective if delivered verbally. Where reports are delivered verbally, evidence must be maintained of the issues discussed.
- 11.10 Audit reports generally:
- Have a management summary which details high risk recommendations and agreed management actions
  - Contain information about the effectiveness of controls relating to key risks
  - Provide an opinion on the effectiveness and adequacy of the system's overall level of control
  - Make recommendations that are appropriate and relevant, that call for action to correct identified weaknesses or improve the efficiency of operations
  - Acknowledge the action taken or proposed by management
- 11.11 An audit report is structured to direct the attention of the reader to the most significant matters. In providing an opinion on the adequacy of the internal controls, the audit report seeks to put the findings in perspective, based on the overall implications and significance of the risks involved.
- 11.12 Recommendations are prioritised to identify clearly their respective risk. These recommendations, and the resultant management action plans, are agreed prior to the issue of the final report, and any areas of disagreement between the auditor and management which cannot be resolved by discussion are recorded in the report/action plan highlighting the residual risk.
- 11.13 Recommendations are prioritised in relation to the relative importance of the risk identified. The Audit Manager has determined a framework for prioritising recommendations, though scope is allowed to negotiate how this is applied. Recommendations are practical, provide constructive solutions to problems identified and demonstrate the benefits of implementation.
- 11.14 Audit reports aim to provide a balanced view, by providing positive as well as negative comments. For example, audit reports make reference to areas that are well controlled, examples of good practice and any improvements made since the last audit.

### **Discussion of Draft Reports**

- 11.15 Before issuing the final report, the auditor normally discusses the contents with the appropriate levels of management, and issues a draft report to them for confirmation of factual accuracy.
- 11.16 Draft reports are reviewed by the Audit Manager or a senior member of the Audit Team, prior to issue and discussion with the client. The draft report is discussed with the client in order to:



- Confirm the factual accuracy of the findings
- Ensure that misunderstandings or misinterpretations are avoided
- Explain, if necessary, the reasoning behind the recommendations
- Provide an opportunity for managers to express their views on the findings, conclusions and recommendations
- Agree the actions to be taken by management to implement the recommendations

11.17 Management's comments are incorporated into an action plan, which is included in the final report and summarises the audit recommendations made together with details of:

- The person responsible for implementing the recommendations
- Target date for implementation.

### **Final Audit Reports and Distribution**

11.18 The Audit Manager agrees the circulation of audit reports having due regard to their confidentiality, the Council's protocol and legislative requirements. The recipients of the audit report are determined when preparing the audit brief and include those with authority to agree management actions. Reports are not normally issued to third parties without the knowledge of relevant management.

11.19 Prior to the issue of the final report, any factual inaccuracies are amended and any changes to recommendations agreed with the appropriate level of audit management.

11.20 In certain circumstances it may be necessary to widen or limit the circulation of the report. Where the circulation of audit reports is widened, the client is advised of this. Conversely, it is necessary to restrict the circulation of sensitive or investigation reports. Should the reporting process vary from that agreed at the start of the audit, the circulation of the audit report is agreed by the Audit Manager.

11.21 Mechanisms are in place to ensure that recommendations with a wider impact than the area under review are reported to the correct forum and that the risk register is updated as appropriate.