



Planning and Performing the Audit

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Course Objectives



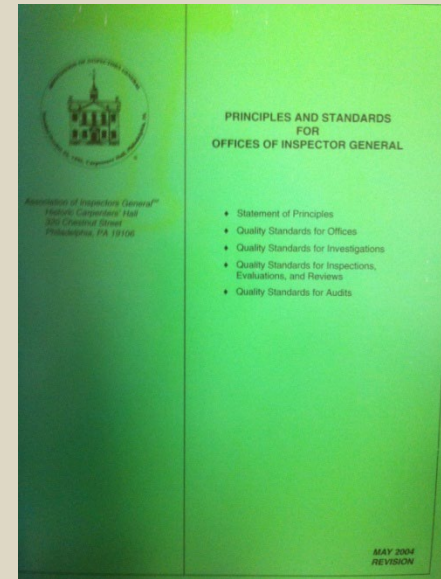
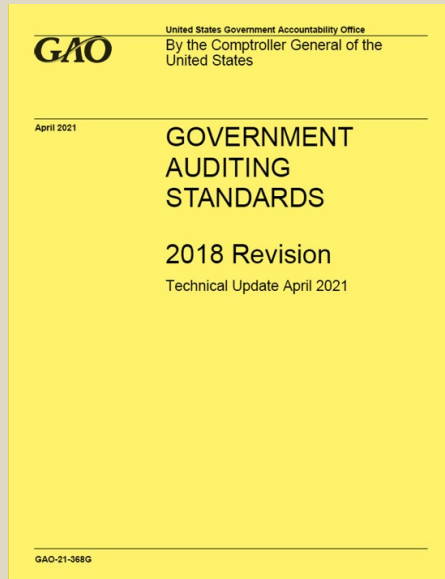
- Identify key steps in survey/planning and fieldwork stages of audit.
- Know the information to gather during planning.
- Know best practices for organizing information.



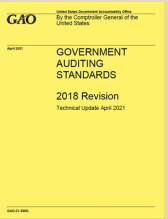
Important to remember:

- **No two inspector general functions are exactly the same**
- **No two inspector general audit functions are exactly the same**
- **Many flavors of inspector general functions**

Professional Standards



Standards



Chapter 8: Fieldwork Standards for Performance Audits

- “8.03 Auditors must adequately plan the work necessary to address the audit objectives. Auditors must document the audit plan.”
- ★ • “8.33 Auditors must prepare a written audit plan for each audit. Auditors should update the plan, as necessary, to reflect any significant changes to the plan made during the audit.”




“2200 – Engagement Planning

- Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.”

Factors to Consider in Planning the Audit

Auditors must adequately plan and document the planning of work

1. The plan is the auditors' responsibility 
2. The plan needs to address audit risk
3. Identify suitable criteria
4. Assign qualified staff
5. Prepare written audit plan

Basic Equation

★ **Good Audit Survey + Quality Audit Plan = Quality Audit**

What is an audit survey?

- An educational process
- Risk assessment
- The first step in an audit
- “Gaining an understanding” ... not a questionnaire.



Main Purposes of Survey

- 1. Obtain information needed to determine and refine objectives, scope, and methodology**
- 2. Identify problem areas warranting additional review (in this audit or next)**
- 3. Obtain information for use in planning and performing the detailed testing work to follow**

Performance auditors are generalists.
We always have **a lot to learn** about the programs we are auditing.



Gene Dodaro



You're not qualified to audit the circus!

Yes I am.

What information do you need to gather?

- Mission
- Authority
- Recent history, changes
- Previous audits, investigations, lawsuits
- Internal controls (& gaps)
- Relevant laws/regulations
- Available resources (\$, personnel, equipment)
- IT systems, data available
- Procurement process
- Management reviews
- Performance goals
- Performance measurements
- Specific concerns of stakeholders
- Organizational structure
- Contracts with third parties
- Exposures to fraud or abuse
- *See GAGAS 8.36-8.79 for more.*

Consider creating a list or template to help you remember all the possibilities.

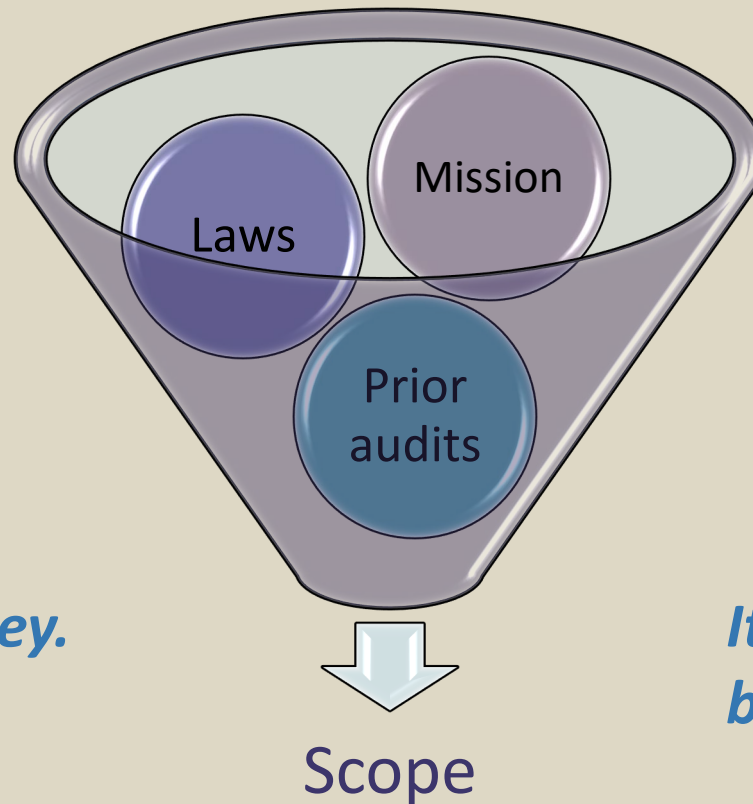


Justice Sonia Sotomayor

I need information on an agency's legal authority to be sure the program or activity being examined is conducted within the bounds of that authority.

Typical survey approach

Start with broad appraisal of many factors



Have a plan for your survey.

It is easy to get overwhelmed by information gathering.

Information Gathering

- Gather, read, analyze already available documentation and data.
- Interview management, staff, stakeholders.
- Request walkthroughs to observe how the operations are actually carried out.
- Request additional documentation or data.
- Run initial tests to confirm data access and validity.

Respect auditee's time by doing your homework first.



Plan out these steps, what you want to learn from each, and the best order in which to do them.

The survey may take a while if you are unfamiliar with the area. Set deadlines if necessary.

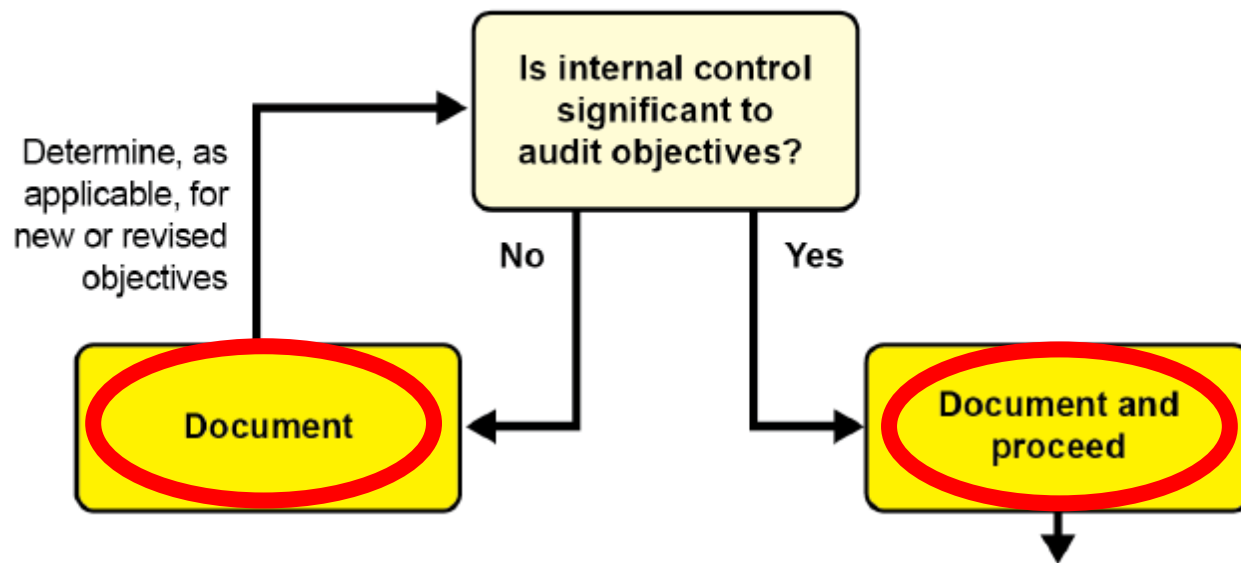
Create a plan to help organize your information

Consider how to make it most useful for:

- this audit
- future audits
- future risk assessments (annual audit plan)

Do you use a “permanent file” or other central repository for information about an agency?

1. **Organize documents and data obtained**
 - Note source and date obtained
 - Summarize what you learned from each
2. **Keep a list of what you still need to find out (outstanding questions)**
3. **Create process flowcharts**
 - Use to confirm with auditee
 - Analyze for potential control gaps
4. **Create a control analysis matrix to document risks and known controls**
 - Consider both design and implementation of controls



Obtain an understanding of internal control that is significant to the audit objectives

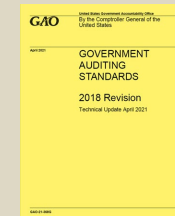
Plan and perform audit procedures to assess internal control to the extent necessary to address the audit objectives

Evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives

Consider internal control deficiencies when developing the cause element of findings

Identify the scope of internal control assessed to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations in the audit report

Internal Control



Performance Audit Requirements

Learning about internal controls

Ask management

How do you know the right things are happening and the wrong things aren't?



Jeff Bezos

Do you mean what processes give me reasonable assurance that my company's objectives will be achieved?

Internal controls, contd.

Ask staff



How do you
know
what to do
and
how to do it?

Assess Control Risks

What could go wrong?

How bad would it be?

What is preventing it?

How likely is it to happen?

Audit effectiveness will suffer if you assess control risks too low.



(You think controls are stronger than they really are, so you are likely to miss some problems and come to the wrong conclusion.)

Detection Risk

Detection risk is the risk that auditor will not detect a material misstatement during a financial audit.



Rosalind Brewer

In a performance audit we don't seek to detect material financial misstatements. But the same attitude of vigilance applies: we must take care not to miss a control gap that is significant in the context of our audit objectives.

Fraud Risk

Chapter 8: Fieldwork Standards for Performance Audits

“8.71 Auditors should assess the risk of fraud occurring that is significant within the context of the audit objectives. [...]

8.72 Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors’ attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings.”

Audit Criteria

If the audit criteria are not known at the outset, the survey must include determining the criteria.



Marvin R. Ellison

I can see what is.
Sometimes it is hard
to determine
what “should be.”

What are the agency's goals?



Healthy Montgomery
Montgomery County, Maryland

- **Improve access to health and social services**
- **Achieve health equity for all residents**
- **Enhance the physical and social environment to support optimal health and well being**

Do they measure performance against established goals?

Defining goals is critical to running any organization.

The agency's goals themselves can serve as audit criteria in a performance audit.



Tony Robbins

But what if the agency has no goals?

Interviews

Pick the right people

- Knowledgeable
- Responsible for operations
- At different levels of organization (managers and front-line)
- Outside stakeholders?

Plan the order of interviews so you can build your understanding and corroborate information.

Good judgment is needed in selecting people to interview.

Valuable information can be obtained by talking with knowledgeable people, but contacting numerous people is time-consuming for you and for them.

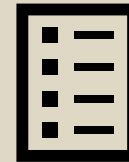


Oprah Winfrey



Auditor Observation

- Document your observations
 - Photos (ask permission)
 - Sample item/document (ask permission, return it)
 - Summary memos



Tour the facility

Observe people, property, events

Walk through a transaction with the staff



Auditor Observation, contd.

Be observant...



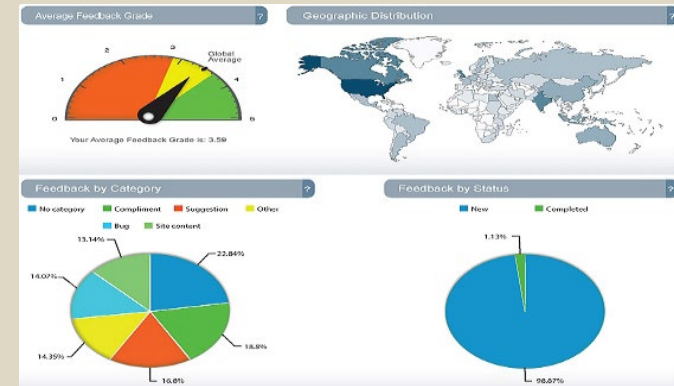
Physical observation can help me:
gain knowledge quickly,
identify signs of waste,
and
pinpoint weak areas
warranting further inquiry.



Satya Nadella

Management Reports & Data

- Performance measurement
- Exception reports
- Budget vs. expenditures
- Correspondence file
- Summary reports



Poor recordkeeping or lack of data may be an indicator of a larger problem...

Preliminary Findings

Start early and often on possible findings.

Any gap between what is (condition) and what should be (criteria) may be a new finding.

No data? Could be an element of a finding.

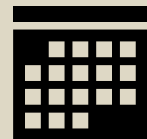


Mary T. Barra

I have the embryo of a finding when I have information that goals are not established, results are not measured, or goals are not fully achieved.

Summarizing Survey Results

- What key background information did you learn?
- **Go/No Go: is this audit still worth pursuing?**
- What are your proposals for:
 - Objectives *What?*
 - Scope *How much?*
 - Methodology *How?*
- What are your preliminary estimates of time and resource requirements – particularly for personnel?
- What is your target date for completing the audit?



Reporting Survey Results

- **Background information about the program, system, activity, criteria, or function(s) to be reviewed.**
(tailored to your audience for this reporting)
- **Management comments, suggestions, and other pertinent results of the entrance conference or other interviews.**
- **A statement concerning any coordination with other government auditors, investigators, and inspectors, when applicable.**

Audit Methodology

Methodology = the procedures used to gather and analyze evidence needed to address the objectives within the scope selected.

- Includes both type and extent of procedures
- Staff must design methodology that will provide reasonable assurance that the evidence obtained is sufficient and appropriate to support the findings or conclusions.
- Methodology must also be designed to reduce the risk of staff reaching incomplete, inaccurate, or unsound conclusions.



Audit Methodology



Remember to design tests that assess whether the data is sufficiently complete, accurate, and valid for the purpose of your audit... *Should you use the data?*

Chapter 8: Fieldwork Standards for Performance Audits

“8.98 ... The sufficiency and appropriateness of computer-processed information is assessed regardless of whether this information is provided to auditors or auditors independently extract it. Assessing the sufficiency of computer-processed information includes considering the completeness and accuracy of the data for the intended purposes.”



See also [GAO-20-2834G, Assessing Data Reliability](#)

Audit Evidence

Evidence must be sufficient & appropriate

Sufficient = is there enough?

Appropriate = is it the right evidence?

- Relevant to the issue?
- Valid (represents what it is supposed to represent)?
- Reliable (consistent? would it come out the same if we tested again?)

Audit Findings

Remember to get all the relevant elements of the finding before you end fieldwork:

- **Condition:** *what is?*
- **Criteria:** *what should be?*
- **Cause:** *why did the gap happen?*
- **Effect:** *how significant is the gap between condition and criteria? (is it quantifiable?)*
- **Recommendation:** *how can the cause be corrected, and the condition rectified?*

I usually learn the cause by asking agency staff and management why the problem occurred. If I don't learn the cause, I can't make a relevant recommendation.



Sonia Syngal

There is usually an immediate cause and a root cause.

Consider Positive Findings



It is OK to have positive findings.

It might even be a good thing...

- A performance audit is designed to answer an objective(s), so if the answer is positive, report it out.
- This builds your credibility
 - Auditees know you will report both good news and bad news—you'll report what you find.
- Positive findings only need criteria and condition (not effect, cause, or recommendation).

Summary

- **Write the plan**
- **Follow the plan, document changes**
- **Focus on objectives, scope, methodology**
- **Stay organized**
- **Address audit risk, fraud risk**
- **Understand internal control**



Questions? Comments?

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