

Overview of Audit Objectives and Programs

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Financial Audits

- **Financial Statement Audit**

Give reasonable assurance about whether statements fairly present the results of operations

- **Financial Related Audit**

Provides assurance that financial information complies with stated criteria

Performance Audits

- **Economy and Efficiency Audits**

Determine whether entity is acquiring, safeguarding, and using its resources cost-effectively

- **Program Audits**

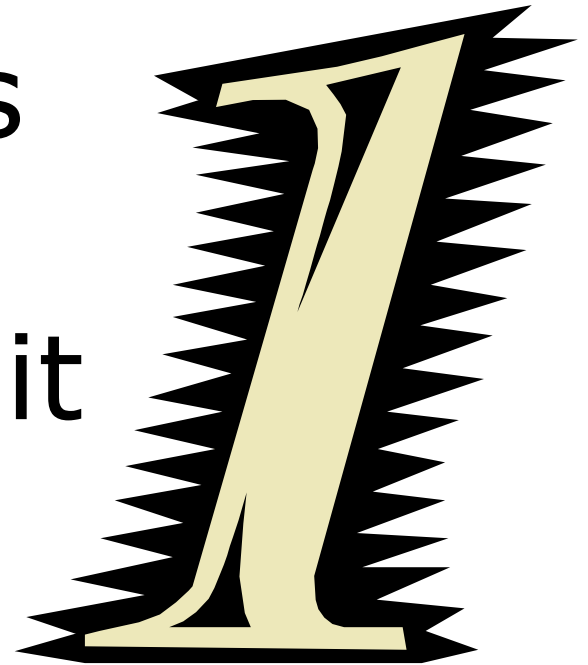
Determine whether the entity is achieving established goals

Compliance

Compliance testing is part of either financial or performance audits, depending on the audit objective.

Step 1

Audit Objectives and Planning the Audit



What are audit objectives?

Yellow Book:

Objectives are what the audit is to accomplish. They are questions about the program/agency that auditors seek to answer.

Project Objectives are the Key to the Project!

- **They establish the direction for detailed audit work.**
- **All planning, evidence gathering, and data evaluation begins with the objectives.**
- **The project is only complete when the auditor has enough competent and relevant evidence to write a report that satisfies the objectives.**

Good Objectives Result In...

- **Useful Information**
- **Efficient Work**
- ***Satisfied Clients***

How are audit objectives determined?

High-level objectives are usually defined for all projects included in the annual audit work plan. These are developed based on a risk assessment process that involves various individuals and groups.

Project teams develop specific objectives (or sub-objectives) for the project during project planning.

Determining High-level Objectives

Consideration is given to:

- Annual Risk Assessment and/or Control Self-Assessment
 - Inventory of auditable activities
 - Evaluation by risk factors
 - Judgmental factors
- Management goals/concerns
- Legislative issues/interests
- Resources available

Become familiar with the Audit Work-Plan Development process at your organization!

Planning Process

During *project planning and scoping*, auditors gain an understanding of the program to be audited to assess the significance of possible audit objectives & the feasibility of achieving them.

Project Planning

Background information is gathered to aid in gaining an understanding of agency mandates, strategies, programs, resources, potential areas of risk, and to identify audit criteria

Project Planning

Within the broad objectives set for the audit, the information gathered during planning is assessed to determine issue areas (or audit sub-objectives) for fieldwork.

Elements of Good Objectives

- **Specific**
- **Measurable**
- **Attainable**
- **Relevant**
- **Timely**

If objectives are not specific and measurable, most likely they are not attainable. If they are not relevant and timely, they will not result in useful information.

Refining the Objectives

- **Prior to planning (have circumstances changed since the original workplan was developed?)**
- **During planning**
 - **Developing sub-objectives**
 - **Narrowing focus**
 - **Changing focus**
- **During fieldwork???** (Can this happen?)

Case Study: Developing A Project Objective

Dept. of Health and Human Services – Youth Services

“Even though there were supposed to be a bunch of new grants for youth services, only two new programs were advertised in the community and one of those was cancelled at the last minute. Can someone look into this for me?”

Step 2

Audit Program Development



Overview

- **Audit Programs Defined**
- **Authority**
- **Methods**
- **Step-By-Step Procedures**
- **Verbs to Use in Audit Programs**
- **Case Study**

Definition

An audit program is a step-by-step plan that describes the evidence gathering and analysis process to be used in a project.

What is an Audit Program?

According to Sawyer's Internal Auditing:

The audit program is a guide to the auditor and a compact with audit supervision that certain audit steps will be taken. These audit steps are designed (1) to gather audit evidence and (2) to permit auditors to express opinions on the efficiency, economy, and effectiveness of the activities reviewed. The program lists directions for the examination and evaluation of the information needed to meet audit objectives within the scope of the audit assignment.

Purpose of Audit Programs

A well-planned and well-organized audit program helps ensure a working understanding of :

- The audit objectives.**
- The reasons for conducting a specific task.**
- How a task will satisfy the objectives.**

Performance Standard 2240 - Engagement Work Program

- **Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded**

Implementation Standard Assurance-2240.A1

- **Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to the commencement of work, and any adjustments approved promptly.**

Program Development Methods

- **Create audit program from scratch**
- **Modify existing audit program**
- **Create from auditee risk assessment**

Regardless of which method is followed, the development of the audit program should be guided by the results of the planning.

Program Development Methods

- **The steps that are included in a program will depend on the audit objectives.**
 - **The form of the audit program and the extent of its detail will vary with the circumstance.**

Program Development Methods

The audit program should set forth, in reasonable detail, the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit.

Step-by-Step Procedures

- The auditor should obtain an understanding of audit areas.
- Determine the project's objectives and issues (e.g. sub-objectives) that will be pursued.
- Determine the nature of audit procedures to be performed for gathering sufficient competent evidence to support project issues and objectives.

Thought for the Day

Audit steps are usually wasteful if they produce information that will not be reported. The audit program stage is not too early to think about the audit report. SAWYER

Note that this applies to forms, reports, and checklists as well – each item reported or requested should add value to the review/audit/oversight process!

Choosing Efficient & Effective Procedures

Factors that determine which procedures are best include:

➤ **Linkage to Audit Objectives**

- Procedures should be designed to obtain evidence related to audit objectives and reporting requirements.

➤ **Nature, Timing, and Extent of Work to be Performed**

- What procedures should be applied.
- Which periods should be considered.
- What level of testing is necessary.

Choosing Efficient & Effective Procedures

Factors that determine which procedures are best include:

➤ **Amount and Quality of Evidence Necessary**

➤ Consider what is necessary to achieve the audit objectives:

➤ **Materiality or significance of matters to which the procedures will be applied.**

➤ **Cost-benefits of the work to be done**

➤ **Reporting time frames that must be met.**

➤ **Available Expertise**

➤ Whether available staff has the expertise to perform and analyze the results of a procedure.

Choosing Efficient & Effective Procedures

Factors that determine which procedures are best include:

➤ **Criteria**

- Criteria are standards against which the audit evidence is evaluated.
 - Select criteria which are relevant to the matters being audited and that are reasonable and attainable.
 - Can be included in the audit program itself.

➤ **Depth of Review**

- Whether the team is performing an in-depth review of an area, or whether the team is gaining an understanding about the area.

Choosing Efficient & Effective Procedures

Factors that determine which procedures are best include:

➤ **Internal Controls**

- Whether the team chooses to rely on internal controls or merely to gain an understanding of controls and perform more extensive tests of details.

➤ **Type of Evidence**

- Physical, Documentary, Analytical, Testimonial

Audit Programs Should Include

- **Overall Audit Objective(s)**
- **Initial and date column for auditors to sign off in when a step is completed.**
- **Title of the section, objectives to be achieved in the section, and scope of the work to be performed in the section.**

Write the Audit Program And Ask Yourself. . .

- **Are the audit objectives well defined and clearly stated?**
- **Do the procedures accomplish all of the stated objectives?**
- **Can you state the criteria that you are auditing against?**
- **Is the level of detail in the audit steps appropriate for the auditor who will be performing them?**
- **Will the evidence gathered by the procedures be adequate, sufficient, competent, etc., to satisfy the objective?**

Review and Revisions

- **Have the audit program reviewed by the project manager and the quality control reviewer.**
- **Throughout the project, circumstances may occur that require further modification of the program, including adding, removing, or changing audit steps. To accomplish this:**
 - **Change the procedures in the program as necessary.**
 - **Have the changes reviewed and approved by the project manager and quality control reviewer.**

Documenting The Audit Program

- **Should be initialed and dated.**
- **Each step should be referenced to a working paper or addressed on the audit program itself.**

VERBS WITH MEANING

- **Analyze**: To break into significant component parts to determine the nature of something.
- **Check**: To compare or recalculate, as necessary, to establish accuracy or reasonableness.
- **Confirm**: To prove to be true or accurate, usually written inquiry or inspection.
- **Evaluate**: To reach a conclusion as to worth, effectiveness, or usefulness.
- **Examine**: To look at or into closely and carefully for the purpose of arriving at accurate, proper, and appropriate opinions.

VERBS WITH MEANING

- **Inspect**: To physically examine.
- **Investigate**: To ascertain facts about suspected or alleged conditions.
- **Review**: To critically study.
- **Scan**: To look over rapidly for the purpose of testing general conformity to pattern, noting apparent irregularities, unusual items, or other circumstances appearing to require further study.
- **Substantiate**: To prove conclusively.

VERBS WITH MEANING

- **Test**: To examine representative items or samples for the purpose of arriving at a conclusion regarding the population from which the sample is selected.
- **Verify**: To establish accuracy.

Case Study: Developing A Project Objective

Dept. of Health and Human Services –
Youth Services

Based on the audit objective developed in our earlier exercise, identify at least 4 audit program steps you and your team would like to perform. Use your Verbs!!!