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Chief Inspector General

The Audit Process:

Step by Step

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Engagement Types

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Definition

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

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Definition Cont.

Internal Audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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Types of Audit Services

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- IIA Addresses
 - Assurance Services
 - Consulting Services
- *It is important to remember that both of the above fall under the umbrella of “audits” and the term internal auditing*

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Introduction

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent **opinion or conclusions** regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. Examples may include financial, **performance**, compliance and system security, and due diligence engagements.



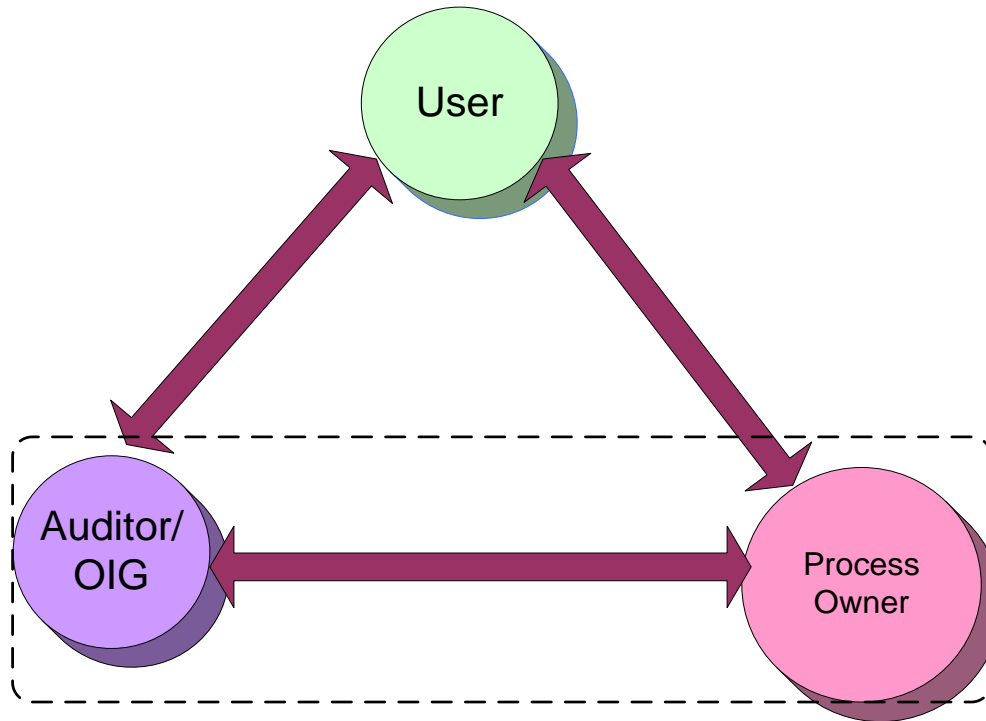
IIA Description of Assurance Services

Assurance Services Involves 3 Parties

- The person or group directly involved with the entity, operation, function, process, system or other subject matter – **Process Owner**
- The person or group making the assessment – **Internal Auditor/OIG**
- The person or group using the assessment – **User**



Assurance Services





IIA – Definition of Consulting

Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management, and control processes **without the internal auditor assuming management responsibility.**

Examples include counsel, advice, facilitation and training.



IIA Description of Consulting Services

Advisory in nature and generally performed at the specific request of an engagement client.

Generally involves two parties:

- The person or group offering the advice – the internal auditor
- The person or group seeking or receiving the advice – the engagement client

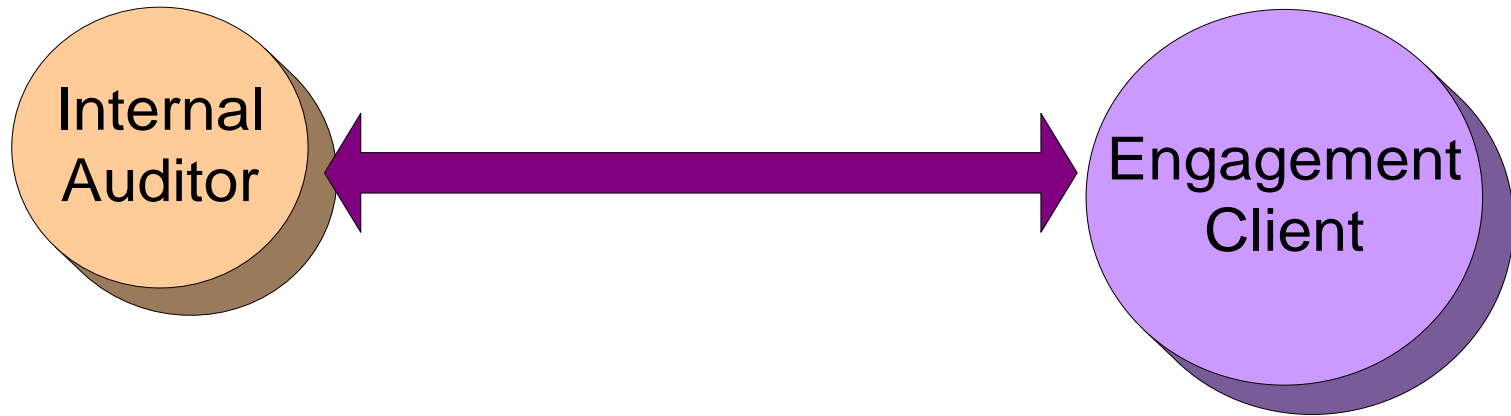
When performing consulting services, the internal auditor should **maintain objectivity and not assume management responsibility.**



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Consulting Services



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It All Starts With Risk

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Risk Assessment

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Criteria Used for Setting Audit Priorities Could Include:

- The Date and Results of the Last Audit
- Financial Exposure
- Potential Loss and Risk
- Requests by Management
- Major Changes in Operations, Programs, Systems and Controls
- Opportunities to Achieve Operating Benefits
- Changes to and Capabilities of Audit Staff

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Practice Advisory 2210.A1-1 – Risk Assessment in Engagement Planning:

- Consider Management's Assessment of Risk Relative to the Activity Under Review
- Obtain or Update Background Information About the Activity Under Review
- If Appropriate, Conduct a Survey to Become Familiar with the Activities, Risk and Controls
- Summarize

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Planning/Preliminary Survey

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If You Fail to Plan You Plan to Fail

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During the Planning Portion of the Audit, the Auditor:

- Notifies the client of the audit
- Discusses the scope and objectives of the examination in a formal meeting with management
- Gather information on important processes
- Evaluates existing controls; and
- Plan the remaining audit steps.

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Developing Audit Objectives

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What are Objectives?

Objectives are what the audit is to accomplish.

Objectives identify the audit subjects and the performance aspects to be tested.



Audit Objectives Should Relate to At Least One of the Following:

- Effectiveness
- Economy
- Efficiency
- Compliance
- Reliability of Information
- Safeguarding Assets



Definitions

- Effectiveness
- Economy
- Efficiency
- Compliance
- Reliability of Information
- Safeguarding Assets



Beginning the Process

- Why Develop Audit Objectives?
- What Does an Audit Objective Identify?
- How Do You Phrase Objectives?
- Questions to Ask....



Example

Original Objective –

To Assess the Department's Efforts to Reduce Procurement Costs and to Determine Whether Cost Savings Can be Improved.



Example

Improved Objective Statements –

- To Determine if Lump Sum Contracts Were More Cost Effective than Cost Plus Contracts.
- To Determine if the Operating Margin in Completed Lump Sum Contracts was Reasonable.



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The client is informed of the audit through an announcement or engagement letter from the Inspector General or Audit Director. This letter communicates the scope and objectives of the audit, the auditors assigned to the project and other relevant information.

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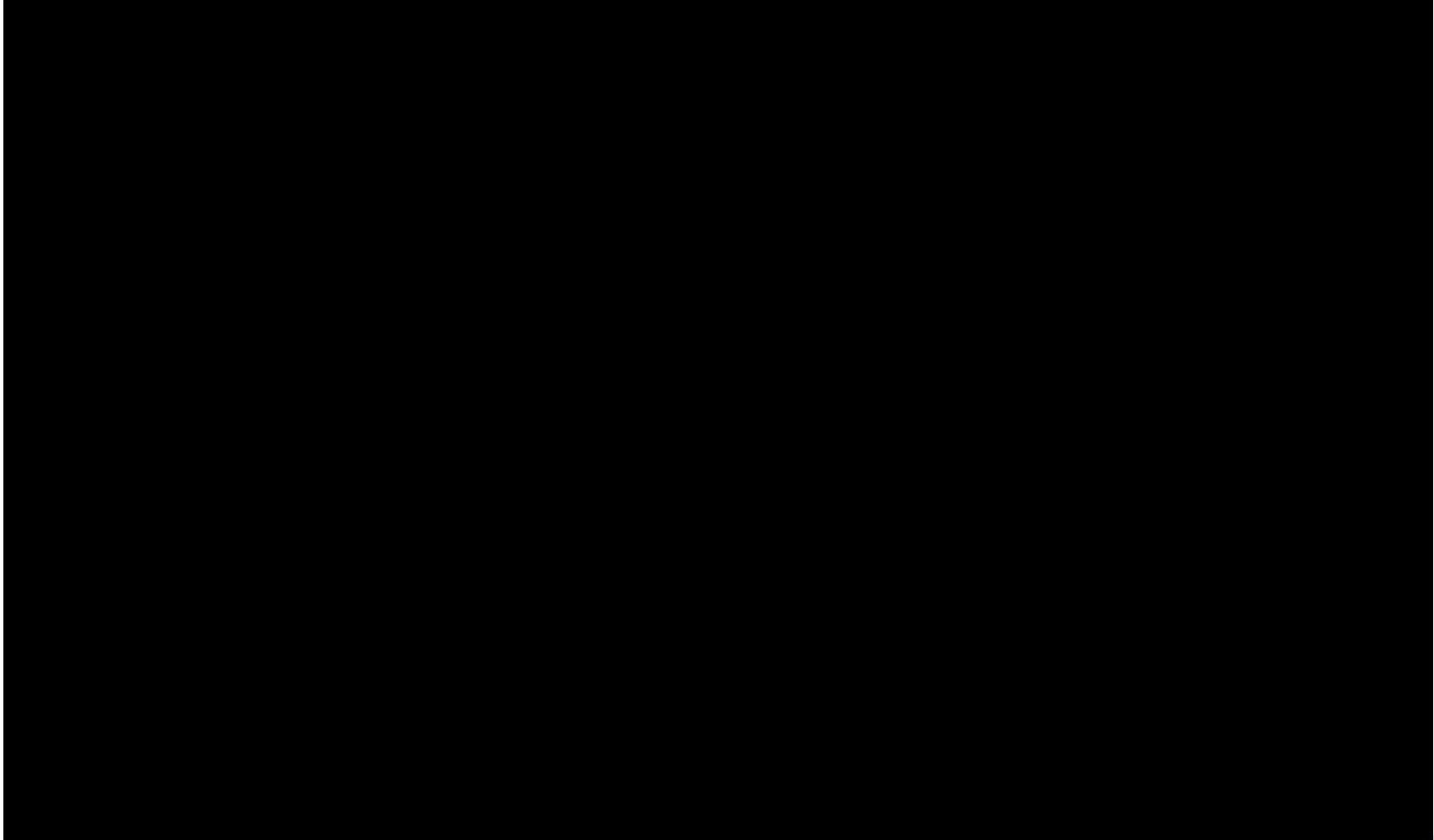
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Mock Entrance Conference

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Preparation of Audit Program

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Fieldwork

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Working Papers

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Audit Report

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Elements of an Audit Report

- Accurate
- Objective
- Clear
- Concise
- Constructive
- Complete
- Timely



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Drafting the Report

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Exit Conference

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Formal Draft Report

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Auditee Response

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Final Report

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Follow-Up

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A Collaborative Effort

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Recap of the Audit Process

- Audit Engagement
- Management Notice
- Entrance Conference
- Preliminary Survey of Operations (Research)
- Fieldwork
- Preliminary and Tentative Draft Report
- Exit Conference



Recap of the Audit Process

- Reporting – First Draft
- Working Conference
- Updates
- Management Response
- Final Report
- Follow-up
- End



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Questions?

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