Armstrong State University
Internal Audit Manual

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Section 1 – Administration

1.1 EXPECTATIONS

The Internal Audit Charter provides an overview of how the internal audit function at Armstrong State University is structured. Staff members are responsible for familiarizing themselves with the contents of the charter and ensuring compliance with all aspects of the charter.

Staff members are expected to hold the following goals and values:

- To contribute to the university community by addressing issues of importance to the community, responding to requests for assistance by community members, and recommending actions which will result in improved efficiency and effectiveness for business processes.

- To maintain the highest degree of fairness, integrity, independence and objectivity in accordance with the Code of Ethics established by the IIA and adopted by the Association of College and University Auditors.

- To demonstrate professionalism, competence, and positive attitudes.

- To provide excellent professional service.

- To demonstrate a high level of personal productivity and timeliness.

- To build relationships with the university community characterized by respect, helpfulness, sharing, patience, and openness.

- To build relationships with fellow professionals characterized by open communication, trust, mutual respect, and professionalism.

- To continue to make use of new methods and technology to make the audit process more effective and efficient.

- To achieve continuous professional improvement through the pursuit of professional certifications and educational goals in the profession.

Staff members are expected to pursue the following goals for each engagement:

- The engagement results in a positive impact on processes whenever possible.

- Auditees have an opportunity to review the issues, conclusions, and recommendations and to be an integral part of mutually agreed-upon action plans for implementation.

- Auditees feel that they can communicate openly and honestly throughout the engagement.

- The perspective and needs of the auditee are incorporated into the work process.

- Engagement objectives are achieved in an efficient and timely manner.

- The engagement objectives, scope, and procedures are constantly reassessed to ensure efficiency.
1.2 RESPONSIBILITIES

The following section outlines responsibilities for staff members in the internal audit function.

**Independence and Objectivity**

The responsibilities regarding independence and objectivity are outlined in the Internal Audit Charter. The following additional guidance is provided for staff members to assist them in understanding how to meet these responsibilities.

Internal audit staff members must be independent and objective both in actuality and perception. Perception of partiality can be prevented by maintaining a professional distance from the staff members of a department being audited (i.e., auditees) while performing an engagement. Questions concerning any relationships with auditees or potential auditees should be disclosed to the appropriate parties. In addition, staff members must not accept any gifts from an employee of the university which would impair, or be perceived to impair, their professional independence or objectivity.

**Confidentiality**

Staff members will typically have access to information of a sensitive or confidential nature. Staff members must be prudent in their use of information acquired in the course of their duties, as well as other information which is available to them. They must not discuss any confidential information with any parties except for official purposes. Staff members shall not use confidential information for any personal gain or in a manner which would be detrimental to the institution or any employee or student of the institution.

Staff members must take adequate measures to prevent the unauthorized release of confidential materials or information in any medium, including paper copies or computer files. Such materials should be adequately secured from theft, reproduction, or casual observation. Confidential materials include any information that is not publicly accessible and that is associated with the names, social security numbers, or identification numbers of students or employees.

**Conduct**

In the course of their work, staff members will be in contact with personnel at all levels of authority and will have responsibilities to both individuals being audited and members of university administration. Staff members are expected to exhibit professional skill, maturity of behavior, and tact in their relations with all of these parties. They are expected to be friendly to all university employees without comprising their objectivity.

Staff members should guard against any conduct or mannerisms which permit an impression that they consider themselves an expert sent to check on university employees. Staff members should not engage in any acts that might discredit the profession of internal audit or the institution. Staff members should always have on the appropriate attire and maintain good grooming habits.
Professional Certifications and Continuing Professional Education

To increase the professionalism and credibility of the internal audit function, staff members in the internal audit department are encouraged to achieve professional certifications, particularly the following designations: Certified Internal Auditor (CIA), Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Management Accountant (CMA) and Certified Fraud Examiner (CFE).

Staff members are encouraged to become members of and participate in the activities offered by professional organizations, particularly the Institute of Internal Auditors (IIA) and the Association of College and University Auditors (ACUA). Staff members are also encouraged to pursue advanced degrees that increase and strengthen their skills.

Timekeeping

In addition to the timesheet requirements established by the university, staff members for the internal audit function must record the time they spend on engagement and non-engagement activities in the Time and Expense Capture module of Teammate, which is the automated workpaper solution used by the department. The due date for these timesheets is fifteen days after the end of each month. (See the manual entitled “USG Teammate Instruction.” for detailed instructions on using this module).

Section 2 – Audit Planning and Risk Assessment

2.1 AUDIT PLANNING

The primary objective of the audit planning process is to ensure that engagements are selected and performed in the most effective and efficient manner. The audit planning process encompasses all activities related to the development of a risk-based audit plan.

Internal audit professional standards mandate the performance of periodic audit risk assessments and the development of audit plans. Relevant excerpts from the Institute of Internal Auditor’s (IIA) Standards related to these processes are provided below:

- “The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.”

- “The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.”

- “The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.”
**Risk Assessments**

A risk assessment will be performed at least twice per year prior to the development of the audit plan. Performing risk assessments on a frequent basis will permit the needs of university administration to be integrated into the audit plan as necessary. Auditable areas will be defined by process (e.g., time and leave reporting or performance evaluations), department (e.g., Economics or the Registrar’s Office), or a combination. A heat map will be utilized to identify those auditable areas that represent key risks to the university.

The risk assessment process combines factual information and auditor judgment in the selection, ranking, and weighing of various risk factors. This process involves the following considerations:

- Definition of the potential audit universe.
- Selection of factors used in assessing risk.
- Quantification of the potential risk for each area included in the audit universe.
- Schedule of engagements and allocation of resources.

**Audit Plan**

The audit plan will consist of a list of assurance and consulting engagements that will be performed to address the key risks identified in the risk assessment process. Not every key risk will be included in audit plan for a given year due to resource constraints and the expectation to audit certain functions or areas that are not captured in the risk assessment process. Special projects that will use significant audit resources will be also be included in the audit plan.

The final determination as to which areas should be included in the audit plan will not be based solely on the results of the risk assessment. Rather, the performance of the assessment is a tool to ensure appropriate coverage of key risk areas. Other factors that can influence the selection and scheduling of engagements include the following:

- Degree of exposure to loss.
- Current and planned work on other projects.
- Availability of staff with the appropriate skills.

A rolling audit plan will be utilized. The span of time included in each plan will be eighteen months. “Near-term” engagements will be used to indicate engagements scheduled for initiation in the next six calendar months, “medium-term” engagements will indicate engagements to be initiated in the next seven to twelve months, and “long-term” engagements will indicate engagements to be initiated in the next thirteen to eighteen months. The audit plan will be reviewed every six months based on the results of the bi-annual risk assessment. If no changes are deemed necessary, planned engagements will be rolled forward.

The risk assessment and audit plan will be submitted to the university president and the Board of Regents’ Office of Internal Audit and Compliance (OIAC). While the risk assessment process utilized to identify risks will be documented internally, the only products that will be submitted
to the OIAC are the heat map that depicts the key risks identified by the risk assessment process and the audit plan.

The Chief Audit Officer (CAO) at the OIAC will analyze the risk assessment and audit plan in combination with those submitted by the other internal audit offices within the University System of Georgia (USG). The CAO will establish a consolidated framework for institutional risk assessments and present this framework to the Board of Regents’ Committee on Internal Audit, Risk, and Compliance.

2.2 RISK ASSESSMENT METHODOLOGY

Risk is defined by the IIA as “the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.” For purposes of the risk assessment, the mission and goals outlined in the strategic plans of the university and the USG will be considered to be the objectives, and risk will be defined as the potential that the university will fail to achieve those objectives.

The risk assessment process will incorporate the following characteristics:

- **Predictive** – Identified risks will appropriately reflect emerging risks in advance of those risks becoming significant constraints to the university.

- **Timely** – The list of risks and their relative impacts will be regularly updated.

- **Simple** – The risk assessment process will not be overly prescriptive in defining the exact weights for quantitative criteria.

- **Intuitive** – The risk assessment process should not become locked into one way of thinking insofar as obvious risks are excluded because they are difficult to quantify or describe.

- **Systematic** – The risk assessment process will be clearly defined.

- **Relationship-aware** – Recognizing that even the listing of a risk may be a sensitive issue for personnel within the institution, communication regarding these risks will be properly managed so as to encourage collaboration.
**Procedures for Identifying Risks**

A high-level view of the risk assessment process is outlined in the following exhibit:

- Analyze Trends
- Assess Risk
- Monitor Results
- Develop engagement schedule

The risk assessment will focus on issues that present a high degree of risk to the university. These issues will be identified through the following actions:

- Collecting information from multiple sources, analyses, and measures.
- Assessing potential risks by likelihood, impact, and breadth.

Each identified risk will be analyzed to determine which type of internal audit engagement best addresses the risk. Certain risks may be best addressed through activities other than engagements, such as bringing the risks to the attention of university administration and making informal recommendations, or publishing a newsletter or website to communicate potential risks and provide options for addressing them.

**Information Sources**

Input from multiple sources is considered when conducting risk assessments. Input from university administration is obtained as a group through the Enterprise Risk Management (ERM) process as well as individually through interviews. Input from the OIAC is received in the form of an annual planning letter from the CAO as well as during quarterly meetings with campus internal audit directors.
The table below describes the various methods for identifying risks:

<table>
<thead>
<tr>
<th>Source of Information</th>
<th>Frequency</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>President</td>
<td>Monthly</td>
<td>One-on-one meetings</td>
</tr>
<tr>
<td>Senior administration</td>
<td>Ongoing</td>
<td>In-person interviews; ongoing feedback</td>
</tr>
<tr>
<td>OIAC and campus internal audit directors</td>
<td>2 to 3 times per year</td>
<td>In-person meetings or conference calls</td>
</tr>
<tr>
<td><strong>Data:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University and USG Strategic Plans</td>
<td>Annual</td>
<td>Identify underlying risks</td>
</tr>
<tr>
<td>Federal and State Laws and Regulations</td>
<td>Ongoing</td>
<td>Identify laws and regulations that are applicable to the university</td>
</tr>
<tr>
<td>Auditor observations</td>
<td>Ongoing</td>
<td>Ad-hoc observations</td>
</tr>
<tr>
<td>ACUA Risk Dictionary</td>
<td>Annual</td>
<td>Identify relevant trends</td>
</tr>
<tr>
<td>List of key risks from the ERM process</td>
<td>Annual</td>
<td>Identify auditable risks</td>
</tr>
<tr>
<td>External audit reports</td>
<td>Annual</td>
<td>Analysis of trends by issue</td>
</tr>
<tr>
<td>Third-party reports (consultants, etc.)</td>
<td>Ongoing</td>
<td>Analysis of trends by issue</td>
</tr>
<tr>
<td>Hotline results, malfeasance reporting</td>
<td>Ongoing</td>
<td>Analysis of trends by issue</td>
</tr>
</tbody>
</table>

**Determining Risk Ratings**

Each risk will be ranked by likelihood, impact, and breadth. These criteria are defined below:

- **Likelihood:** Low = 1; Medium = 2; High = 3.
- **Impact:** Low = 1; Medium = 2; High = 3; Very High = 4.
- **Breadth:** Low = 1 (single department); Medium = 2 (multiple departments); High = 3 (entire university).

The following factors will also be considered when determining the rating of each risk:

- **Audit History:** Includes time since last audit and prior audit issues and ratings.
- **Compliance Footprint:** Includes fines or penalties associated with non-compliance for regulated areas, as well as reputational risks.
- **Reliance on Information Technology:** Includes usability and security of information systems, business continuity, and potential impact of system failure.
- **Dollar Volume and/or Liquidity:** Includes funds committed to a project or program and liquidity of assets.
- **Organizational Change and Unit Transitions:** Includes turnover, significant process changes, significant budget changes, and significant mission changes.
2.3 SCHEDULING ENGAGEMENTS

As a result of the ongoing nature of the risk assessment process, the preliminary engagement schedule included in the audit plan will be modified as needed in order to respond to emerging risks. Also, the university president or the CAO may request the performance of engagements. In order to incorporate necessary changes or additions, the timing for planned engagements may be revised and engagements may be moved forward or backwards in the schedule.

Examples of factors that may affect the audit plan include:

- Reduced likelihood of a risk event, which may result in moving an engagement forward in the engagement schedule.
- Increased impact of a risk event, which may result in an increased scope of work.
- Increased breadth of a risk event, which may expand the focus of an engagement from a single department to multiple departments.

Effectively addressing issues identified in the risk assessment is the primary criterion that will be used when scheduling engagements. However, the following factors shall also be considered when scheduling engagements:

- Being cognizant of when functions are being audited by other parties, such as when the State auditors are performing on-site testwork related to the finance function.
- Minimizing the disruption of a function’s normal business operation, particularly during the preparation of annual financial reports, registration, or other peak operating times.
- Minimizing the disruption of a function’s operations during unusual events such as an accreditation review or a key vacancy such as a Vice President position.
- Providing functions with enough time to take corrective actions from previous audits.

In addition to performing engagements, other types of activities must be considered when developing a schedule. Sufficient time should be built into the schedule to accommodate the following types of activities:

- **Special Projects** – Assisting with various initiatives, including facilitation of the Enterprise Risk Management (ERM) process.
- **Advisory Services** – Providing informal consulting advice to the university community.
- **Compliance Activities** – Performing inquiries into ethics complaints which do not result in formal investigations.
- **Professional Development** – Attending training events.
- **Audit Support Activities** – Performing administrative tasks, including quality assessment reviews.
- **Indirect Controllable Hours** – Participating in various university functions.
- **Leave Time** – Taking leave, including holiday leave.
2.4 TYPES OF ENGAGEMENTS

The following types of engagements will be included in the audit plan as applicable.

Assurance Engagements

The type of assurance engagement performed will be determined by the goal of the engagement, as defined below:

- **Operational** – Comprehensive examinations of an operating unit to evaluate its performance, as measured by the objectives established for the unit. Operational audits focus on the efficiency, effectiveness, and economy of operations.

- **Financial** – Assessment of the accuracy and propriety of financial transactions.

- **Compliance** – Determination as to whether, and to what degree, there is conformance to certain specific requirements of policy, procedures, standards, laws and/or regulations. Compliance audits require little preliminary survey work or review of internal controls, except to outline precisely what requirements are being audited. These audits focus almost exclusively upon detailed testing of conditions.

- **Information Technology** – Evaluation of the accuracy, effectiveness, efficiency and security of electronic information processing systems that are in production or under development.

Investigations

While engagements primarily are designed to add value to business processes, investigations are designed to identify responsibility for, and measure the impact of, specific actions that have allegedly occurred. These actions will typically be violations of laws, regulations policies and/or procedures. As applicable, investigations will include the identification of control weaknesses, the recommendation of corrective measures to prevent subsequent recurrences, and determination of the amount of loss and/or fraud.

Generally, procedures for conducting an investigation will not follow the guidelines used for conducting assurance engagements. Auditors are expected to rely upon their best professional judgment and seek appropriate guidance as they conduct investigations. Investigations will normally include the following:

- Communication with university administration.
- Coordination with human resources and financial personnel and the OIAC.
- Development of an engagement plan.
- Preparation of a written report and/or memo.

Auditors should be prepared to further discuss the results of their work with outside law enforcement and prosecutorial authorities as the situation warrants. Auditors should take special care when identifying evidentiary matter, interviewing potential witnesses, and performing analyses. Auditors should protect the confidentiality of their sources, methods, and evidence throughout the performance of investigations.
Consulting Services

Consulting services provide information, encouragement, and review on issues concerning policies, procedures, and internal controls. Auditors are obliged to follow applicable professional standards when conducting consulting engagements. Relevant portions of the IIA Standards are reproduced below:

- “The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.”

- “Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice – the internal auditor, and (2) the person or group seeking and receiving the advice – the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.”

Section 3 – The Engagement Process

3.1 ENGAGEMENT PLANNING

Engagement planning consists of the planning efforts undertaken in preparation for conducting a specific engagement, to include the determination of scope and objectives, timing, design of detailed procedures, and resource planning. Performance of an engagement includes the development of an audit engagement plan, the issuance of an audit report, and the subsequent follow-up on significant audit issues.

Planning and preparation for an engagement involves assembling the necessary data to develop an engagement plan so that the audit work can be performed effectively. Most of this information can be obtained through discussion with the auditee. The engagement plan defines what will be done, how it will be done, and when it will be done. The plan should be completed prior to the engagement start date. The following information will be included in the plan as appropriate:

- **Overview** – An overall perspective of the area selected for audit. Examples include key organizational and financial data and major automated systems.

- **Significant Operating Statistics** – Statistics that would clarify the operating environment of the area to be audited, as well as trends or comparative statistics. Examples include the number of employees, number of students, number of various documents processed, number of patients seen and the amount of capital assets.
• **Listing of Key Personnel** – The names and titles of key personnel with whom the auditor will have significant contact, such as the head or director of the department being audited.

• **Engagement Schedule** – The schedule will be driven largely by the audit plan.

### 3.2 THE ENGAGEMENT PROGRAM

The engagement program is the cornerstone of all fieldwork. The engagement program will list the tasks that should be performed in order to thoroughly and adequately audit a particular area.

The audit steps comprise the majority of the engagement program. An engagement program can range anywhere from one step to several steps, depending on the size and detail of the program. The overall scope, objectives, and procedures for the engagement program are reflected in the individual procedures contained within the audit steps. Each audit step should relate back to the overall engagement objective so that, as the steps are completed, the engagement objective is fulfilled.

Key sections of each audit step include the Objective, Risks, Criteria, Scope, and Procedures. Each of these sections is described below.

**Objectives**

Defining the engagement’s objectives provides a structure and format for the engagement. Objectives refer to the goals that should be accomplished by the engagement. The question “If I was in charge of this department, what would I want to be reviewed?” should be considered in determining the objectives.

Engagement objectives generally revolve around the following goals:

- To gain an understanding of the audited area’s policies and procedures.
- To ensure that the area is following the all applicable policies and regulations.
- To determine how key processes are conducted.
- To ascertain whether or not there are adequate controls over key processes.
- To determine the key risks to which the area is exposed.

Each step in an audit engagement program will have its own objective, which may include one or more of the objectives listed above. All of the objectives stated at the beginning of the engagement should be addressed and assessed by the audit program as a whole.

The engagement objectives should be flexible. Issues or questions that arise during the course of an engagement can warrant expansion of some engagement objectives and contraction of others. “Stop-and-Go” techniques should be used throughout an engagement to evaluate progress towards achieving the objectives and to evaluate what additional work should be performed.
Factors influencing the engagement objectives consist primarily of information gathered from current operating results, auditee concerns, prior workpapers, and known relevant occurrences since the last engagement. Consideration should be given to following up on audit issues from prior audit reports during fieldwork, if feasible.

**Risks**

A thorough understanding of potential risks to achieving these objectives will enable the audit to stay focused, while also assisting in “selling” the importance of addressing audit issues that may be discovered to the auditee. (See Section 2.2 entitled “Risk Assessment Methodology” for more information regarding the identification of risks.)

**Criteria**

Criteria refer to those external standards by which performance will be compared and evaluated. Examples of these standards include the following:

- Policies and procedures (to include those of the university, Board of Regents, and State Accounting Office).
- Federal and state laws and regulations.
- Contractual obligations.

Recommendations should not be artificially constrained to policy or procedural violations. Recommendations can also rely on “best business practices” or other less defined standards. In these cases, however, stronger arguments and evidence may be needed to convince the auditee of the benefits of accepting these recommendations, compared with recommendation based on violations of policies or procedures.

**Scope**

The scope refers to the breadth and depth of the engagement and provides a framework of the engagement. The scope must be well defined in order to assure that the engagement work maintains the appropriate direction, is performed for the appropriate period, covers the appropriate topics, and is conducted efficiently.

Budgeted hours can have a substantial impact on the scope of an engagement, varying anywhere from sufficient time to conduct a full scope review to only a fraction of that time. The budget is usually indicative of the importance placed upon the engagement.

When developing the scope for each audit step, consideration should be given to what procedures need to be performed to accomplish the engagement objectives and what area or time frame would be most beneficial to test. Each audit step should list the criteria by which the procedures of the audited area will be analyzed, as well as any risks that the audited area and/or the institution as a whole could face if not in compliance with the criteria. The purpose of each audit step will be to determine whether or not the institution is in compliance with specified criteria.
The scope of a particular audit step will determine the audit procedures to be performed. A procedure can range from conducting a brief internal control questionnaire to performing detailed analysis of an area’s procedures and practices. Following are a few typical procedures:

- Prepare a narrative of a process or procedure.
- Conduct a preliminary survey.
- Sample and test data.
- Calculate performance indicators.
- Observe employees in their work environments.

**Procedures**

An audit procedure will require different levels of observation and research depending on the complexity of the audit step for which it has been written. Development of audit procedures revolves around the criteria that are used as well as the defined scope and objectives. Audit procedures from past engagements should be used as resources for developing new audit programs, but these procedures should be updated and re-formatted as necessary reflect technology advances and revisions to applicable rules and regulations.

Questions to consider when preparing audit procedures include:

- Are the audit procedures appropriate and efficient for testing compliance with objectives?
- Have all objectives been addressed, or have some been overlooked?
- Are audit procedures adequately defined and clearly stated?
- Is information technology considered when applicable (e.g., testing of security access to Banner or physical security)?

### 3.3 COMMUNICATION WITH THE AUDITEE

For each engagement, the following steps should be taken in respect to communications with the auditee responsible for the area being audited:

**Engagement Letter**

A formal engagement letter will be prepared and sent to the auditee prior to the engagement’s start date. The engagement letter informs the auditee of the approximate starting date of the engagement as well as which areas have been selected for review. The engagement letter also instructs the auditee to respond with acknowledgement as to the engagement terms.

**Entrance Conference**

An entrance conference will be held prior to the commencement of fieldwork. In addition to the auditee, those persons who will be contacted most frequently during the engagement will be invited to attend the entrance conference. The entrance conference represents an opportunity to
“sell” the auditee on the engagement objectives. The entrance conference often sets the tone for the entire engagement and should promote a spirit of reasonableness, cooperation, and willingness to be of service to the auditee.

The engagement plan, the nature of the engagement (e.g., financial audit or operational audit), and how the engagement will be conducted should be explained to the attendees. The scope, which includes the anticipated direction, the specific areas to be reviewed during the engagement, and the time period to be covered (e.g., the current fiscal year), will also be explained.

**Ongoing Updates**

Updates will be provided throughout the engagement to ensure that the auditee:

- Understands the progress of the engagement.
- Is aware of any major issues identified by the engagement.
- Speaks with staff members in the audited area who are being uncooperative or unresponsive.

### 3.4 FIELDWORK

Evidential matter obtained during the course of the engagement provides the documented basis for the auditor’s opinions, issues, and recommendations as expressed in the final report. Professional standards dictate that auditors exercise due professional care and collect sufficient, competent, relevant, and useful information to provide a sound basis for audit observations and recommendations. Upon the conclusion of the fieldwork, the observations and recommendations will be summarized and an exit conference will be held.

Sufficient evidence should be collected to ensure adequate consideration of the following management assertions:

- **Existence or Occurrence:** Assets and liabilities exist and transactions have occurred.
- **Completeness:** Accounts and transactions that should be included are included.
- **Rights and Obligations:** Assets (i.e., rights) and liabilities (i.e., obligations) have been recorded accurately.
- **Valuation and Allocation:** Elements of financial statements are appropriately valued and allocated to the proper accounting period.
- **Presentation and Disclosure:** Amounts shown in the financial statements are properly presented and disclosed.

Various sources should be utilized for gathering evidence, such as the following:

- **Accounting data** – This data should be obtained directly from the accounting system (i.e., the general ledger) whenever possible to ensure that the data has not been manipulated either intentionally or non-intentionally.
• **Corroborating evidential matter** – This information is typically obtained through inquiry, observation, inspection, or physical examination (e.g., checks, invoices, wire transfers, and contracts).

• **Interviews of relevant personnel** – Verbal communication is generally considered to be the least reliable form of evidential matter. A reasonable effort should be made to obtain additional evidentiary matter if the particular issue will be included in the final report.

When evaluating whether or not collected evidence is adequate, consideration should be given to its relevance and validity to engagement objectives and its source (e.g., direct, external, or internal). In many cases, evidence that is persuasive rather than convincing will have to be relied upon when forming opinions and recommendations because of time and cost considerations.

**Audit Sampling**

Audit sampling refers to testing less than one-hundred percent of a particular population with the objective of drawing conclusions about the characteristics of the population. The risk associated with sampling is that errors will not be detected and the proper conclusions will not be drawn. Therefore, when selecting the type of sampling to use, the exposure and risks of the areas audited must be considered.

Statistical sampling is an approach that uses random sample selection and probability theory, and includes the following types:

• **Attribute sampling** – This method is used to select a sample of items which can have only two possible values (e.g., the condition exists or the condition does not exist). This method is used to estimate the rate of occurrence of an event.

• **Variable sampling** – This method is used to select a sample of items which can take any value within a continuous range (e.g., dollar amounts). The purpose of this method is to estimate quantity.

Judgmental sampling is performed subjectively rather than mathematically. This type of sampling relies on the auditor’s knowledge and experience of a particular subject matter. Judgmental sampling should be limited to situations where there are not enough resources available to define a probability sample.

### 3.5 GAINING AN UNDERSTANDING OF INTERNAL CONTROLS

Internal controls are business processes designed to provide reasonable assurance regarding the achievement of institutional or departmental objectives, the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
Maintaining effective internal controls involves five key activities, as described below:

1. **Control Environment** – The control environment is the foundation for all other internal control activities, providing discipline and structure. The control environment consists of the actions, policies, and procedures that reflect the overall attitudes of management of an entity regarding internal controls and their importance for the entity.

2. **Risk Assessment** – Risk assessment refers to the identification and analysis of risks which threaten the achievement of the entity’s objectives. Risk assessment forms a basis for determining how the risks should be managed.

3. **Control Activities** – Control activities refer to the entity’s policies and procedures, as well as activities included in the other four components, which help ensure necessary actions are taken to address risks and achieve objectives. Typical control activities include segregation of duties, information processing, physical controls, performance reviews, approvals, authorizations, verifications, and reconciliations.

4. **Information and Communication** – Pertinent information must be identified, captured, and communicated in a form and timeframe that enables employees to carry out their responsibilities, make informed decisions, and report to external parties. Pertinent information includes internally generated data as well as information about external events, activities and conditions. Information systems are typically used to produce reports of operational, financial and compliance-related information. Effective communication must occur in a broad sense – flowing down, across, and up the organization.

5. **Monitoring** – Monitoring activities refer to ongoing or periodic assessment of the quality of internal control performance to determine that controls are operating as intended and that they are modified as appropriate for changes in conditions.

**Documenting Internal Controls**

An understanding of the internal controls in the audited area should be achieved towards the beginning of the engagement. The following types of documents are commonly used to document an understanding of internal controls:

- **Narratives** – Written descriptions of the internal controls that have been created for a particular process, such as an accounting system. A narrative should include the origin and disposition of essential documents and records, any processing that takes place, and an indication of any controls that have been established to address risks inherent to the process.

- **Internal control flowcharts** – Symbolic diagrammatic representations of the sequential flow of steps involved in a particular process, including all applicable documents. The same characteristics described above for narratives should be included. Flowcharts should be used primarily for those processes that will most likely be included in the final report.

- **Internal control questionnaires** – Series of questions regarding controls in a particular area. Responses will be analyzed for indications of both existing and missing internal controls.
Section 4 – Workpapers

4.1 DOCUMENTING WORKPAPERS

All testwork pertaining to a particular engagement will be documented in workpapers. Workpapers are critical to engagements in many ways. Vast amounts of information, including numerous documents, will be handled during the course of most engagements. Workpapers serve as tools to perform and organize this information. Thorough workpapers are essential for providing a sound basis for the identification of issues and the development of recommendations. Workpapers are used for planning recurring engagements and facilitating various types of review, including quality assessment reviews.

Workpapers provide evidence that the engagement work was actually performed by including listings of items that were tested and descriptions of testwork that was completed. Example of testwork include interviews with various personnel, answers to questionnaires, narratives of processes or activities, outlines of procedures, or lists of observations made throughout the course of an engagement.

When workpapers are completed for a particular audit step, there should be no questions left unanswered with regard to the scope and objective of the audit step. Workpapers should be able to stand alone so that anyone who reads the workpapers will be able to understand all aspects of the engagement, including the work performed, the areas tested, the purpose, and the conclusions, without any additional explanation.

The following guidelines should be followed when preparing workpapers:

- **Complete** – A logical, well thought out conclusion should be reached for each audit step.
- **Concise** – Workpapers should be confined to those that serve a useful purpose.
- **Uniform** – Workpapers should be of similar appearance as much as possible, to ensure consistency and clarity.

Information include in the workpapers should have the following characteristics:

- **Sufficient** – Factual, adequate, and convincing.
- **Competent** – Information that can be relied upon for drawing conclusions.
- **Relevant** – Information that supports audit observations and recommendations and is consistent with the audit objectives.
- **Useful** – Information that will help the audited area meet internal and institutional goals.
- **Cross-referencing** – Work done in one audit step will often relate to work done in another audit step. Information and documents that are utilized for multiple test steps should be cross-referenced rather than duplicated.
Conclusions
Each audit step will have a stated conclusion in the workpapers that relates to its objective, even if there are no issues detected for a particular audit step. For example, the objective “to ensure adequate controls exist in the reconciliation of the payroll bank account” may be associated with a conclusion that reads “adequate controls appear to exist in the reconciliation of the payroll bank account – no exceptions noted.”

Security of Data
The protection of data during the course of the engagement is a professional obligation and, for many types of data, is mandated by various state and federal laws. Ideally, material containing sensitive data (e.g., student grades, social security numbers, medical data, or personnel data) should not be removed from the auditee’s workspace. Any material with sensitive data that is removed from the auditee’s workspace should be returned to the auditee within the same business day. If sensitive data must be retained for a longer period of time, it should be stored under lock and key or kept in the auditor’s possession.

Sensitive data should be redacted from any materials before copies are made as much as possible so that the amount of sensitive data that is retained in the workpapers is minimized.

4.2 DOCUMENTING ISSUES

Descriptions of audit issues should include detailed observations, to include all related facts and variables. Each description should provide the auditee with a concise analysis of the issue. An issue description is comprised of the following five sections:

- **Observation (What is)** – Describes all relevant conditions, including what was audited, what was measured, and what information or trends were discovered. Additional information, such as default ratios or a decline in sales over the prior year, should be provided when possible to assist the reader in understanding why the observation is worthy to be included in the report.
  - **Opening Paragraph:** Should tell the reader what was measured or evaluated.
    - **Example:** A review of ticket sales revenue for football was conducted to ensure that the revenue collected corresponded to the number of tickets sold. Ticket control logs, as well as sales and attendance reports, were reviewed to ensure the accuracy of the quantity of tickets reported as sold or distributed non-gratis.
  - **Following Paragraphs:** Should tell the reader what was found. Include quantities, dollar amounts, percentages or other non-financial details.
    - **Example:** Based on the number of tickets sold, actual revenue deposited in the Athletic Department’s ticket revenue account was significantly less than expected revenue. Specifically, 32,550 tickets were sold which would typically bring in $200,000 in revenue; however, only $100,000 in revenue was recorded. No discrepancies were noted between the number of tickets sold or distributed non-gratis in comparison to sales and attendance reports.
• **Criteria (What should be)** – States the law, policy, or best business practice by which the situation was judged or measured. If there are multiple standards, the most authoritative should be prioritized.
  
  ➢ *Example:* Generally accepted accounting principles require that revenue collected through sales be accurately accounted for, in relation to the quantity of goods sold. In addition, the University’s Business Procedures Manual states: “Funds generated from the sale of tickets to athletic events shall be reconciled to the number of tickets sold for each event. A Ticket Sales Reconciliation Report shall be prepared by the Athletic Department and forwarded with the event’s receipts to the Bursar’s Office no later than one business day following the event.”

• **Cause (Why did it happen?)** – States how and why the discrepancy occurred.
  
  ➢ *Example:* The Athletic Department failed to ensure that revenue generated from ticket sales was properly accounted for and posted to the correct account.
  
  ➢ *Example:* A comparison of current year ticket sales to prior year ticket sales and an analysis of revenue variance were lacking.

• **Risk/Effect (What could happen?)** – Lists all of the risks that are associated with the observation and the potential effects that this situation could have on the audited area and/or the institution. Should answer the following questions: What can go wrong by not following the policy, procedure, law, and/or best business practice? What would be the consequence(s) of not following the criteria?
  
  ➢ *Example:* A high risk of theft and/or fraud exists.
  
  ➢ *Example:* The Athletics Department may be unable to maintain funding levels required to support existing athletic programs and the administration of Intercollegiate Athletics.

• **Recommendation (What should be done?)** – Includes proposals or guidelines for the auditee that suggest how to correct the situation. Examples of ways to address the problem or condition should be offered. Suggestive words and phrases such as “should,” “would benefit from,” and “would strengthen” should be utilized. Authoritarian words such as “must” or references to disciplinary action should be avoided.
  
  ➢ *Example:* The University should implement and monitor internal controls designed to verify the accuracy of revenue collected and recorded for ticket sales to athletic events. The internal controls should include a continuing mechanism for ensuring all revenue generated from ticket sales is properly accounted for and deposited in the correct university account, such as frequent audits and/or cross-verification of ticket sale revenue reconciliation reports to receipt deposits.

  o **Title of the Recommendation:** The title of the recommendation should begin with an action word (e.g., strengthen, ensure, implement, require, or engage).
    
    ➢ *Example:* Ensure revenue collected from athletic ticket sales adequately reflects the number of tickets sold.
4.3 ISSUE RATINGS

The following rating scale will be utilized for issues:

- **Comments**
  - Nominal or minor violations of procedures, rules, or regulations.
  - Minor opportunities for improvement.
  - Corrective action may be discussed verbally, but formal response is not required.

- **Significant**
  - Significant violation of policies and procedures, weak internal controls, and/or significant opportunity to improve effectiveness and efficiency.
  - Corrective action required.

- **Material**
  - Material violation of policies/procedures/laws, unacceptable internal controls, high risk for fraud/waste/abuse, and/or major opportunity to improve effectiveness and efficiency.
  - Immediate corrective action required.

4.4 TEAMMATE

An automated workpaper solution called TeamMate is used to retain the workpapers for all engagements. TeamMate keeps information related to each engagement centralized, enables consistency and standardization of workpapers and reports, facilitates referencing, and allows for workpapers to be reviewed easily.

A separate project will be created in TeamMate for each engagement. When a project is created, database tables for recording key information are automatically generated. Whenever possible, audit steps should be downloaded TeamStore, which is a module within TeamMate that is used to store audit programs. The “Record of Work Done” section for each audit step will include a description of testwork that has been completed, relevant workpapers, and hyperlinks to any issues related to the audit step.

Section 5 – Reporting and Follow-up

5.1 REPORTING GUIDELINES

One of the major goals of the internal audit function is to address issues of importance to the university community. To accomplish this goal, the following interrelated tasks are performed:

- Review of the functions of operations and preparation of workpapers that reflect the scope, coverage, and observations related to the engagement performed.
• Documentation of issues and conclusions, the causes of any undesirable conditions, and recommended corrective actions.

It is through the medium of the engagement report that the results of each engagement will receive attention and influence corrective action. The report will communicate engagement results and related recommendations to all relevant levels of university administration.

The report presentation should describe the conditions noted in a precise manner and offer solutions to any problems discovered. Only observations, issues, and conclusions that are adequately supported by sufficient evidence should be included in the report. Issues should be presented in a constructive manner so that they command the attention of administration and result in the most positive reaction possible. A balanced perspective should be used when making critical comments, which takes into consideration any difficulties or unusual circumstances faced by the personnel of the audited area.

As appropriate, background information regarding the area audited should be included in the report to provide context. This information should give the reader an idea of the magnitude and significance of the area by including data such as total annual sales, number of students occupying residential housing, enrollment demographics, or other “news worthy” bits of information.

The following guidelines should be used for preparing the information that will be included in an engagement report:
• Present complete and objective observations and responsive and feasible recommendations.
• Present factual data accurately, completely and objectively.
• Issue the report promptly upon completion of the engagement in order to ensure that the information is available for timely use by the auditee.
• Demonstrate that the engagement objectives were met and the engagement program was followed.
• Include an overall opinion of the area that is based upon the results of the engagement.
• Place primary emphasis on improvement rather than on criticism.
• Mention the presence of strong internal controls and/or low incidents of errors or non-compliance whenever possible.
• Present observations and conclusions in a convincing manner.

The following guidelines should be used when writing an engagement report:
• Be concise yet detailed enough to be fully understood.
• Write in language as clear and simple as the subject matter permits.
• Ensure the report is grammatically correct and properly punctuated.
• Capitalize the names of formal or specific entities, offices, reports, or forms.
  ➢ **Examples:** The University, the College, the Bookstore, the Business Office, the Ticket Office, and the Annual Report.

• Use active voice instead of passive voice.
  ➢ **Example:** The Director of Accounting did not review or approve bank reconciliations for the months of June, July, and August.
  ➢ **Instead of:** Bank reconciliations for the months of June, July, and August were not reviewed or approved by the Director of Accounting.

• Use past tense, as conditions noted during the audit will have occurred in the past.

### 5.2 DRAFT REPORT

A draft report will be prepared upon completion of field work which will summarize all observations issues noted during the fieldwork and provide recommendations as necessary. The report will be sent to the auditee no later than thirty days after completion of fieldwork. A transmittal letter will be sent with the draft report, explaining the next steps in the process and instructing the auditee to submit written responses within thirty days.

Once the draft report is prepared, an exit conference will be scheduled to discuss the observations and recommendations included in the report. The exit conference will not be held until the draft report is in the hands of the auditee, so that the auditee has an opportunity to review the observations and recommendations prior to the exit conference. It should be attended by the auditee and any other members of administration deemed necessary.

The goals of the exit conference are to agree on the facts presented, clarify any discrepancies, discuss the rating for each issue, and discuss any pertinent observations that were not included in the report. The exit conference should be considered an opportunity to “sell” the auditee on the importance of accepting the recommendations. Ideally, all observations noted in the draft report will have already been discussed with the auditee before the exit conference.

The exit conference provides the auditee the opportunity to respond to any recommendations and discuss potential corrective action plans and timelines. During the exit conference, the auditor should seek assurance that the auditee fully understands the reasons underlying any recommendations included in the report. Auditees should also be asked whether they agree or disagree with each of the recommendations. If the auditee substantially disagrees with any of the observations and recommendations, additional discussion should be held to identify whether revisions can be made that would be mutually acceptable to both the auditor and auditee.

Report distribution and follow-up procedures will be explained to the auditee at the conclusion of all discussion. The auditee will be asked to submit written responses to each of the recommendations included in the report describing the corrective action plans that will be taken,
to include the current status of implementation, what tasks will be taken, which individual will be responsible for these tasks, and when the tasks will be completed.

5.3 FINAL REPORT

When the written responses are received to the issues in the draft report from the auditee, these responses will be reviewed to ascertain if they are satisfactory. If so, the responses will be added to the report. If the responses received from the auditee are not satisfactory, the auditor should attempt to reach resolution with the auditee. If necessary, the auditor will escalate the concerns of the auditee to university administration. If all avenues for escalation are exhausted and resolution cannot be achieved, the inability to reach a resolution will be noted in the report.

The final report will be submitted to the auditee, relevant members of university administration, and the OIAC electronically. The TeamMate project for the engagement will be closed and issues will be automatically transferred to TeamCentral, which is the module in TeamMate utilized for tracking the status of issues. The individual tasked with each corrective action plan will be required to provide status updates of progress against the plan on a quarterly basis until the plan is completed. When a plan for a particular issue has been completed and the auditor is satisfied that the issue has been adequately addressed, the issue will be closed in TeamCentral.

Section 6 – Quality Assessment Reviews

Quality Assessment Reviews (QARs) evaluate compliance of an internal audit function with IIA professional standards by assessing the function’s quality of work and overall effectiveness.

A QAR will be performed at least every five years. The two types of QARs are full external validation and self-assessment with external validation. The internal audit director, in consultation with the university president and the OIAC, will determine which type of QAR will be performed. Typically, the second option will be selected because of the lower cost associated with this option. If this option is selected, the internal audit function will conduct an internal self-assessment and engage an external assessor(s) to perform the external validation.

While the external assessor(s) may consider all factors impacting compliance with IIA Standards, the assessor(s) will most likely focus on the following objectives:

- Determine whether the internal audit function is sufficiently addressing significant risks at the institution.
- Determine whether the internal audit function allocates internal resources in an efficient and effective manner.
- Determine whether engagement planning, working papers, and reports are in compliance with the Standards.

The results of the QAR, including any corrective action plans, will be shared with the university president and the OIAC.
Revision History

This manual was created on February 24, 2010 by Susan Hacker.
Revisions were made to the manual on October 22, 2015 by Susan Hacker.