Audit Evidence, Documentation, and Reporting

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General Course Objectives

Upon completion of this course, participants should be able to:

- *Understand* how critical thinking is the basis for auditor judgment, appropriate and sufficient audit evidence, and reporting;
- *Identify* types of audit evidence available to meet the defined audit objectives;
- *Recognize* the linkage between methodologies employed and types of evidence gathered and analyzed;
- *Assess* audit evidence gathered and documented and use auditor judgment to interpret results obtained; and
- *Understand* how to apply auditor judgment, appropriate methodologies, and triangulated evidence to ensure audit objectives are accomplished.

Module One: Critical Thinking and Auditor Judgment

- **Overview of Competence, Thinking, and Judgment**
- **Formal Logic**
- **Criteria for Critical Thinking**

Competence

- **Unconscious Competence**
  – Common Sense

- **Conscious Competence**
  – Critical Thinking
  – Being conscious of each step in a process as you are performing that process so that you do not inadvertently omit key steps
  – Thinking about thinking while you are thinking

The Flow of Reasoning

Critical thinking

leads to

Reasoned judgment

which leads to

Auditor judgment

Critical Thinking

- **Is the art of analyzing and evaluating thinking with a view to improving it.**
- **Is using our command of the elements of thinking to dynamically adjust our thinking to the demands of each unique situation.**
- **Requires rigorous standards of excellence and mindful command of their use.**
- **Entails effective communication and problem solving abilities.**

Reasoned Judgment

- **Judgment based on relevant, sound reasoning that goes beyond, and is never to be equated with, fact alone or mere opinion alone.**

- **Reasoned judgment follows the standards of formal logic and critical thinking.**

Reasoned Judgment

- **Three Types of Answers**
  - Fact
    - **9 out of 10 expenditures not reimbursed by the awarding agency were rejected due to inadequate supporting documentation.**
  - Opinion
    - **The program manager doesn't care about keeping receipts.**
  - Reasoned Judgment
    - **Requests for reimbursement are not reviewed for adequacy of supporting documentation.**

Auditor Judgment

- **Drawing audit conclusions and making audit decisions based on a combination of sound logic and firm knowledge of auditing standards and business practices.**

Logical Ability in Auditing

- **Problem Solving**

- **Weighing evidence**

- **Collecting evidence**

- **Drawing conclusions**

- **Determining sound criteria**

- **Defining possible effects of conditions**

Deductive and Inductive Logic

- **<u>Deduction</u> – conclusive support for the validity of the conclusion**

- **<u>Induction</u> – some varying level of support for the validity of the conclusion**
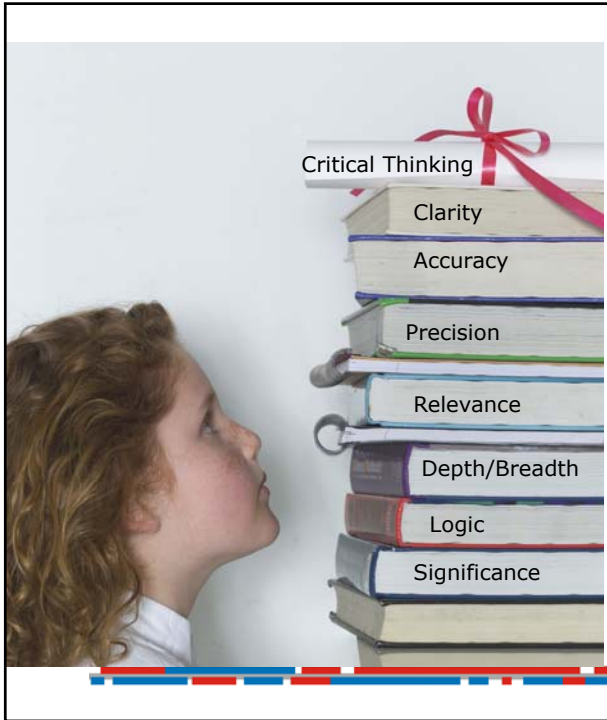
Audit Deduction and Induction

- **Common definitions**
  - Deduction – general to specific
  - Induction – specific to general

- **Critical Thinking definitions**
  - Deduction – If not fallacious, conclusion is always valid
  - Induction – If not fallacious, conclusion has varying probability of validity, based on the soundness of evidence and reasoning.

Audit Fieldwork is Inductive

- **Fieldwork compiles information from a "top-down" approach, collecting information later used to reach a conclusion –**
  - Fact
  - Fact
  - Fact, **therefore. . .**
  - Conclusion (Finding)

Audit Reporting Should be Deductive

- **In the report, we want to show the result FIRST, then the support:**
  - Conclusion (Finding), **because. . .**
  - Fact
  - Fact
  - Fact
- **Compare a narrative like a news report or an audit report that leads with the conclusion to a mystery novel. Fiction is inductive, audit reports should be deductive.**

Criteria

for

Critical

Thinking

Critical Thinking

Clarity

Accuracy

Precision

Relevance

Depth/Breadth

Logic

Significance

Module Two: Audit Evidence Definitions, Concepts, and Standards

- **What is audit evidence**
- **Types of audit evidence**
- **Hierarchy of audit evidence**
- **Preparing an audit evidence matrix**
- **Auditing standards related to audit evidence**

What is audit evidence?

According to Webster, "evidence" is:

A: an outward sign or indication;

**B: something that furnishes proof –
specifically something legally
submitted to a tribunal to ascertain
the truth of a matter**

What is audit evidence?

**According to many college audit
textbooks:**

**"Evidential matter" is any information
that corroborates or refutes an
assertion.**

What is audit evidence?

According to Sawyer's Internal Auditing:

Audit evidence is the information internal auditors obtain through observing conditions, interviewing people, and examining records. Audit evidence should provide a factual basis for audit opinions, conclusions, and recommendations.

What is audit evidence?

- Audit evidence is data/information gathered during the audit:
    - to measure, compare and evaluate
    - to meet audit objectives
    - to support audit conclusions and judgments
- Audit evidence is documented in working papers
- Audit working papers are audit evidence

Types of Audit Evidence

- **Physical**
- **Obtained by observing people, property, and events**

- **Documentary**
- **Consists of created information – reliability is affected by source**

- **Analytical**
- **Includes computations and comparisons**

- **Testimonial**
- **Obtained through inquiries of others**

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Field Work Standard – Evidence

Why Classification of Evidence is Helpful:

- **Method of collecting each type differs**
- **Competence of evidence depends in part on the type**
- **Methods of assuring competence differs**

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Examples of Each Type
of Audit Evidence

- Physical

- Documentary

- Analytical

- Testimonial

- Inventory assets, inspect operations, photographs

- Review external/internal documents, conduct tests

- Compare to / analyze using prescribed standards, past operations, laws and regulations

- Conduct interviews, do employee surveys

Hierarchy of Audit Evidence

Physical

Documentary & Analytical

Testimonial

- **Strongest**

- **Weakest**
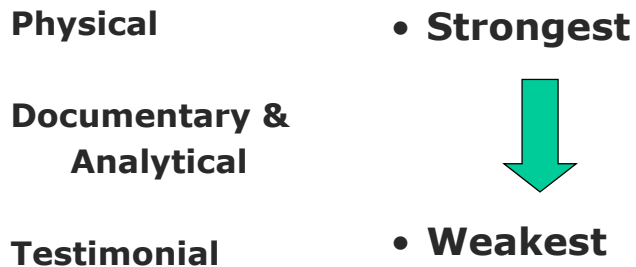
What is an Evidence Matrix?

An evidence matrix is a tool that can be used throughout the project by the audit team to identify which types of evidence support each issue, and assess the appropriateness and sufficiency of the evidence, in development of the findings.

Example of an Evidence Matrix

	Type of Evidence				Quality of Evidence		
ISSUE	Phy	Doc	Anal	Test	Suff	Weak	Excess
Issue # 1							
Issue # 2							
Issue # 3							
Issue # 4							

New Tests for Evidence

- **Under 2007 Yellow Book changes, evidence must new meet two tests –**
  - **APPROPRIATENESS** (including. . .)
    - **Relevance**
    - **Validity**
    - **Reliability**
  - **SUFFICIENCY**
    - **Matching the level of risk to the level of evidence**

GAO
Government Auditing Standards

- **Standards for Performance Audits (Chapters 7 and 8, 2007 Revision)**

Appropriateness (7.59) is defined as a measure of quality of evidence that encompasses the <u>relevance, validity, and reliability of evidence</u> used for addressing the audit objectives and supporting findings and conclusions.

Sufficiency (7.66) is defined as a measure of <u>quantity of evidence</u> used for addressing the audit objectives and supporting findings and conclusions.

Field Work Standard – Evidence

Sufficiency of Evidence (Quantity)

- ◆ **>** Audit Risk, then **>** quantity of evidence required
- ◆ "Unusual claims require unusual evidence" – Fox Mulder
- ◆ Stronger evidence may allow less evidence to be used
- ◆ Large volume of evidence does not compensate for lack of relevance, validity, or reliability

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Sufficiency Questions

- **Cost/benefit of obtaining evidence needed considering available audit resources?**

- **Body of evidence (including sample-size considerations) needed to reach conclusions? Is it enough? Is it too much?**

- **What's the audit environment? How likely will audit results be challenged?**

- **What's the audit risk to assume? How significant is the issue?**

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Field Work Standard – Evidence

Appropriateness of Evidence (Quality)

- ◆ Relevance
- ◆ Validity
- ◆ Reliability

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Appropriateness Questions

- **Is the evidence _relevant_? Is it logically related and important to the issue being considered?**

- **Is the evidence _valid_? Does it result from sound reasoning?**

- **Is the evidence _reliable_? Is it consistent, verifiable?**

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What else is there?

Are there rules for audit evidence collection and documentation beyond the "Appropriate and Sufficient" already discussed?

YES

Where are the rules?

1) Your internal policies and procedures manual
2) Yellow Book – Generally Accepted Government Auditing Standards (GAGAS) - 2007 Revision

   NOTE: AICPA professional standards incorporated in GAGAS
3) Other professional standards such as the Institute of Internal Auditors (IIA) International Professional Practices Framework
4) Specific rules/regulations based on funding source(s)
5) State requirements

Where to BEGIN?

On your mark

Get set

Audit!

Module Three: How Evidence Fits the Audit Process

- **Let's consider three phases of the audit process, covering Steps 1 and 2**
    - Linking the Audit Objectives to the Evidence
    - Developing the Audit Program and Defining Procedures
- **. . .to lead us to a full discussion of Step 3, Gathering and Analyzing Audit Evidence.**

Step 1

Defining Audit Objectives

If you don't know where you're going, any road will get you there.

(Cheshire Cat, Alice's Adventures in Wonderland)

Audit Objectives are the Key to the Audit!

- **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.**

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.

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.

Planning Process

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

Audit objectives related to testing

Ultimately – testing determines whether something is as it should be.

All audit tests should be responsive to and design to help answer one or more of the audit's objectives.

Step 2

Audit Program Development: Planning to Collect and Analyze the Evidence

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.

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Audit Programs Should Lead the Auditor to Relevant and Reliable Evidence

- **Designing/selecting tests, selecting samples, and collecting and analyzing:**

  - ➢ **Physical Evidence**
  - ➢ **Documentary Evidence**
  - ➢ **Analytical Evidence**
  - ➢ **Testimonial Evidence**

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Field Work Standard – Types of Evidence

GAGAS focus is on the sources of evidence and methods of obtaining evidence.

(par 7.60)

Appendix cites following types (A7.02):

- Physical
- Documentary
- Testimonial

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Field Work Standard – Evidence Is Better If…

- Developed from system with good controls
- Obtained directly by auditor
- Documents are originals
- Provider is free to speak
- Provider is knowledgeable
- Obtained from 3rd party
  (par 7.60)

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What is an Audit Program?

According to Sawyer's Internal Auditing (simplified):

The program is designed to tell the auditor:

- What is to be done.
- When it is to be done.
- How it is to be done.
- Who will do it.
- How long it will take.

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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.

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Developing the Audit Program

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.

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.

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Choosing Efficient and Effective Procedures

Factors that determine which procedures are best include:

- Linkage to Audit Objectives
- Nature, Timing, and Extent of Work to be Performed
- Amount and Quality of Evidence Necessary
- Available Expertise
- Criteria
- Depth of Review
- Internal Controls
- Type of Evidence

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Linkage to Audit Objectives

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

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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.**

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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-benefit of the work to be done.
  – Reporting time frames that must be met.

- **Recall the "appropriate" and "sufficient" tests in the Yellow Book!**

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Audit Program (and forms) Priorities 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?**

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Planning Actions Regarding Audit Evidence

- **Analyze**
- **Check**
- **Confirm**
- **Evaluate**
- **Examine**
- **Inspect**
- **Investigate**

- **Observe**
- **Question**
- **Review**
- **Scan**
- **Substantiate**
- **Test**
- **Verify**

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Planning for Testing

Which testing technique to apply?

To what information?

How much/how many?

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Planning for Testing

Planning for testing should be formally documented and should include (as part of the strategic planning/audit program development):

- Defining the objective of the testing;
- Identifying the type of testing that will be responsive to the objectives;
- Identifying the personnel needs as to: skills and disciplines, experience qualification, numbers;
- Determining the sequence of the testing process;

Planning for Testing – cont.

Planning for testing should be formally documented and should also include:

- Defining the standards or criteria;
- Defining the test population;
- Deciding on the methodology of sampling to be used;
- Examining the selected transactions or processes.

Defining Criteria

Performance standards or criteria are explicit or implicit.

Explicit – Standards that are set forth clearly in directives, job instructions, specifications, or laws. In these cases, the criteria are clearly defined – units of measurement and established standards.

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Defining Criteria

Performance standards or criteria are explicit or implicit.

Implicit – Standards may have been established by management, but have not been documented clearly in how they will be achieved. In the case of implicit standards, auditors must come to an agreement with management on standards of acceptability BEFORE commencing testing.

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Defining and Obtaining Access to the Test Population

This is the key to effectively completing the audit!

• The objectives and scope of the audit will define the limits of the population.

• The availability/accessibility of the data will delineate acceptable/feasible approaches to obtaining the population. (This includes both internal and external data.)

Defining and Obtaining Access to the Test Population

Why is it important to identify the population?

What can impact population accessibility?

How can you ensure that the population is complete?

Deciding on the Methodology of Sampling to be Used

Sampling is the process of applying audit procedures/techniques to less than an entire population to draw conclusions about the totality.

Regardless of the methodology selected, by sampling the auditor must accept the risk that the sample selected does not truly represent the population.

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Deciding on the Methodology of Sampling to be Used

The very first decision an auditor must make is whether sampling is the most efficient and effective way to obtain evidence. With current information technology options, computer-assisted tests can be performed on entire populations.

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Deciding on the Methodology of Sampling to be Used

Assuming the decision is made to select a sample, the auditor may choose to take either a:

Directed or judgmental sample – used when auditors suspect serious errors or manipulation and want to find evidence to support their suspicions. When using this sampling process auditors MAY NOT draw conclusions regarding the population as a whole. Also known as a non-statistical sample – sampling risk may not be measured objectively.

Deciding on the Methodology of Sampling to be Used

Or, the auditor may choose to take a:

Random sample – used when auditors are trying to take a picture that will closely "represent" the population as a whole. The larger the sample, the more likely it is to accurately represent the population. Also known as a statistical sample – each item in the population has an equal chance of being selected – therefore the sampling risk can be measured.

Deciding on the Methodology of Sampling to be Used

There are many methods of sampling – enough that it would take an entire day to cover. Some good resources include Sawyer's Internal Auditing, Internal Audit Sampling (IIA 1991), and The Use of Statistical Sampling by Internal Auditors: Current Practices (Gary Braun and Patricia Meyers)

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Examining the Selected Transactions or Processes

Next is the process of actually examining/analyzing/reviewing/assessing our data using the techniques discussed earlier.

Auditors examine documents, transactions, conditions, and processes to get the facts and to reach conclusions. The term examination includes both measurement and evaluation.

The best approaches and effective results will depend on the type of evidence we are trying to collect.

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Physical Evidence

- **Physical Evidence**

  Anything that is apparent to the senses – it can be heard, felt, smelled, tasted and seen, and can be described.

- **Common forms**
  - **Creatures of all types**
  - **Man-made physical resources**
  - **Natural resources**
  - **Activities of people**
  - **Events**
- **OBSERVED BY AUDITOR (UFO example)**

Physical Evidence

Strengths
- Most reliable
- More persuasive

Weaknesses
- May not be what it appears
- May be staged
- May differ from yesterday

Gathering Physical Evidence

Generally limited to 3 options:

1) Auditor observation of people, property, processes, and/or events;

2) Graphic/pictorial representations such as photographs, diagrams, or maps; or

3) Actual physical samples collected such as soil samples.

Gathering Physical Evidence

Questions for consideration:

Appropriate and Sufficient?

Who, what, what, where, when, how?

Criteria, criteria, criteria

How does this evidence help to achieve the audit objective(s)?

Assuring Appropriate/Sufficient Physical Evidence

- **Physical evidence is its own objective reality**
- **May need validation to affirm that it is what it purports to be**
- **Competence depends on the auditor's observation skills and the methods of documenting, recording and measuring the observations**

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Assuring Appropriate/Sufficient of Physical Evidence

Methods to corroborate auditor observations:

- Have a second observer
- Take a picture and have it authenticated by a third party
- Have an agency person document concurrence with the auditor's description
- Special testing (e.g., laboratory analysis)

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Gathering Documentary Evidence

The single most common form of audit evidence.

Primary consideration when gathering documentary evidence:

SOURCE

Documentary Evidence

- **Documentary Evidence**

  Data in written and graphic form gathered and <u>prepared by someone other than the auditor</u>.

- **Common forms:**
  - **Paper**
  - **Electronic**
  - **Film**

Documentary Evidence

Strengths

- Most common type used in audit work
- Relatively inexpensive to obtain

Weaknesses

- Generally cannot be accepted as reliable; some checking is necessary

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Gathering Documentary Evidence

What are some of the possible sources of documentary evidence?

- **External documents such as invoices, letters or memorandums, packing sheets, etc.**
- **Internal documents that are circulated through outside parties such as canceled checks.**
- **Internal documents such as accounting records, copies of outgoing correspondence, e-mail receiving reports, etc.**

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Gathering Documentary Evidence

What can affect the reliability of internally created documentary evidence?

- **Internal Controls!!!!**
- **Clearly documented processes and procedures**
- **Well-trained/experienced employees**
- **Supporting evidence**

Gathering Documentary Evidence

Ask to see:

- **The original documents whenever available**
- **The entire file/packet (all supporting documentation) whenever available**
- **The employee/department responsible for creating/receiving/reviewing the document(s) and maintaining the records**
- **The written policies/procedures for the department/program/process that are relevant to the document**

Gathering Documentary Evidence

Ask to see:

- **The process for approving/reviewing/verifying the accuracy/completeness of the document (when appropriate)**
- **Other similar documents from other time periods and/or other programs to compare/contrast (when appropriate)**

Gathering Documentary Evidence

Always make sure that you understand:

- **The purpose of the document**
- **Where/who it came from**
- **Any codes or other features within the document**
- **Any links or references to other documents**

Gathering Documentary Evidence

Questions for consideration:

Appropriate and Sufficient?

Who, what, what, where, when, how?

Criteria, criteria, criteria

How does this evidence help to achieve the audit objective(s)?

Assuring Appropriate/Sufficient Documentary Evidence

Data from 3rd Parties:

- Inquire into their professional reputation, qualifications, and independence
- Check to see if the data have been audited, or if their auditors will audit it or if you can audit it
- Ask users, and assess the reliability of the input data

Assuring Appropriate/Sufficient Documentary Evidence

When data are found to have errors and auditors are not able to confirm its reliability, it may be necessary to:

- Seek evidence from other sources.
- Redefine the audit's objectives to eliminate the need to use the data.
- Use the data, but indicate in the report the data's limitations and refrain from making unwarranted conclusions or recommendations.

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Documentary vs Analytical Evidence

Analytical evidence is developed or derived by the auditor(s) from other evidence, and is often used in concert with documentary evidence.

Documentary evidence is created by others, analytical evidence is developed by the auditor using other types of evidence as the basis for analysis (not considered a "type" of evidence in the 2007 Yellow Book).

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Analytical Evidence

- **Analytical Evidence**

  Comes from the auditor's analysis and logical reasoning using data previously obtained

- **Determines the sufficiency and appropriateness of evidence collected through physical, documentary, and testimonial methods**
- **Common analytical methods**
  - Comparison
  - Computations (measurement, etc.)
  - Separation of information into components
  - Rational argumentation

Analytical Evidence

Strengths
- Versatility
- Powerful form of evidence

Weaknesses
- Competence dependent of auditor skill
- Potential for auditor bias

Analytical Evidence

- **Analytical auditing procedures are useful in identifying**
  - Differences that are not expected
  - The absence of differences when they are expected
  - Potential errors, irregularities or illegal acts
  - Other unusual or nonrecurring transactions or events

Analytical Procedures/Methodology

- **Examples of analytical auditing procedures:**
  - Comparison of current period data with similar data for prior periods, budgets and/or forecasts
  - Study of relationships of financial with appropriate non-financial data, or among data elements
  - Comparison of data with similar data for other organizational units, or for the industry in which the organization operates

Assuring Appropriate/Sufficient Analytical Evidence

Competence of analytical evidence depends on the knowledge and skill of the auditor, and the auditor's objectivity and the quality of the data used in preparing the analysis.

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Assuring Appropriate/Sufficient Analytical Evidence

Ways to assure competence:

- **Supervisory review**
- **Expert review**
- **Review by knowledgeable client staff**
- **Review by knowledgeable uninterested persons**

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Testimonial Evidence

- **Testimonial Evidence**

  Data obtained directly from people in response to inquiries from the auditor or other persons.

- **It may be oral or written**
  - It may represent personal knowledge and fact, or opinion and belief

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Testimonial Evidence

Strengths

- May be valuable leads not readily obtainable in other ways
- May be the only source

Weaknesses

- Least reliable evidence
- It may be false, biased, incomplete
- Like "hearsay" in a trial

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Gathering Testimonial Evidence

Questions for consideration:

Appropriate and Sufficient?

Who, what, what, where, when, how?

Criteria, criteria, criteria

**How does this evidence help to achieve the audit objective(s)?**

Assuring Appropriate/Sufficient Testimonial Evidence

Competence is dependent on:

- **The person interviewed being credible**
  - He/she can be relied upon to be truthful
  - He/she is not reluctant to provide the data
- **The skill of the auditor in…**
  - Asking questions
  - Recording the responses
  - Interpreting the results

Step 3

Collecting and Testing Audit Evidence
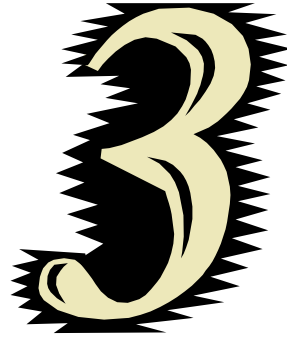
Data Analysis: Four Steps

1. Getting the data

2. Validating the data

3. Analyzing the data

4. Drawing conclusions from the data

Getting the Data

- **Know where to get it**
  - Platform (PC/mainframe/other) and format
  - Quantity and extract options
  - Knowledgeable staff
- **State-wide databases**
- **Internal business systems (budget, accounting, personnel)**
- **Special programs**
- **Enter it yourself**

Getting the Data

When possible, use existing reporting resources. Why?

- Independence
- Familiarity
- Efficiency

Computer Assisted Audit Tools

- **Specialized audit software such as ACL and IDEA**
- **Spreadsheets (Excel)**
- **Database programs (Access)**
- **Statistical analysis programs (SAS)**

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Computer Assisted Audit Tools

- **Allows auditors to extract and analyze data independent of programmers and auditees**
- **Summarizes large amounts of data**
- **100% testing of large populations**
  - Increases probability of detecting errors and omissions
  - Increases probability of detecting fraud

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Validating the Data

- **Know what it should look like**
  - Important fields
  - Statistical expectations

- **Check key fields for validity and reliability**
  - Numeric / alphanumeric
  - Blank / non-blank
  - Valid codes
  - Data relationships

- **Check file for completeness**

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Validating the Data

- **How will the data be used?**

- **How likely is it that data errors could change the conclusion?**

- **What do you already know about the reliability of the data source?**
  - Application controls
  - Problem history
  - Prior audit findings

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Analyzing the Data

- **Generate summaries and statistics on key fields**
  - Record count
  - Totals and key subtotals
  - Average, max, min values

- **Run "overview" reports (group, sort, quantify, and summarize)**

Analyzing the Data

- **Exceptions to policy or other criteria**
- **Statistical deviance and digital analysis**
  - Benford's Law
  - Rounding of amounts
  - Even dollar amounts
- **Descriptive statistics (fluctuations, ratios, trends, rankings, benchmarking, budget/actual)**
- **Inferential/predictive statistics (analysis of variance, hypothesis testing, regression)**
- **Cost-benefit/cost-effectiveness analysis**

Analyzing the Data

- **Extract "suspect" records for review**
- **Select statistically valid sample for review and extract**

Drawing Conclusions

- **Significance**
- **Reasonableness**
- **Further evaluation needed**
- **Future audit areas**
- **Other considerations**

Gathering Testimonial Evidence

Two variations:

1) Auditor conducts interviews or asks
   questions (including follow-up
   questions) to auditee employees

2) Written questionnaires and/or response
   memorandum/letters

AN AUDIT INTERVIEW IS . . .

A planned question-and-answer session
used to gather sufficient, competent and
relevant information (i.e. testimonial
evidence) that will be used <u>along with
other sufficient, competent and relevant
evidence</u> to properly support the auditor's
conclusions, findings, and
recommendations.

Yellow Book Standards Related to Interviewing

6.47 **Testimonial evidence is obtained through inquiries, interviews, or questionnaires....**

6.54 **The following presumptions are useful in judging the competence of evidence. However, these presumptions are not to be considered sufficient in themselves to determine competence.**

e. **Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions (for example, where the persons may be intimidated).**

f. **Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.**

TYPES OF INTERVIEWS

STRUCTURED

- **questions prepared in advance**
- **pre-established sequence and manner**
- **may be narrow in scope**

INFORMAL

- **spontaneous**
- **may clarify earlier comments**
- **can allow interviewer to obtain prompt reaction to events**
- **not arranged in advance**

PURPOSE OF INTERVIEWS

- **To obtain information**

- **To inform the client of audit objectives**

- **To obtain the client's perspective of the topic of discussion**

4 KEY INTERVIEWING COMPONENTS

- **Planning & Scheduling**

- **Conducting the Interview**

- **Closing the Interview**

- **Post Interview**

2 TYPES OF QUESTIONS

OPEN-ENDED

- **broaden scope of responses**
- **help formulate other specific questions**
- **involve gathering in-depth data**
- **provide context for deeper understanding of responses**

CLOSED-ENDED

- **limit scope of responses**
- **easily yield quantifiable data**
- **involve gathering less in-depth data**
- **provide strong confirmation of findings**

Questionnaires

- **Help the auditor become more familiar with the auditee's operations, processes, and personnel**
- **Can be "formal" or "informal"**
- **Can help management be sure that their area is ready for inspection (formal questionnaire)**
- **Never stand alone as evidence – auditors must analyze the answers AND supporting documentation!**

Questionnaires - Purpose

- **The main purpose of any questionnaire is to help auditors prioritize their efforts**
- **The very nature of the questions can help the auditee become aware of auditor criteria and expectations**
- **Questionnaires must only be viewed as a road map – a tool – never as sufficient audit evidence standing alone**

Questionnaires - Cautions

Even though questionnaires are used to enhance auditor understanding, the auditor's current level of understanding should NOT impact the extent of the questionnaire UNLESS the auditor is prepared to document everything they already know!

Always remember that a questionnaire is a working paper and will be used by future auditors as a guideline for gaining future understanding of the auditee programs and processes.

Assessment of Evidence

Overall Assessment of Evidence

1. Considered to be sufficient and appropriate
2. Considered to be not sufficient and appropriate
3. Considered to be of undetermined sufficiency and appropriateness
   (par 7.70)

Module Four: Documentation, Findings, and Reporting

- **Documentation is required**
- **Findings are based on audit evidence**
- **Reporting communicates the findings**

"The most important findings, the most brilliant analysis, and the best conclusions are of little value unless they are carefully and clearly documented."

University of Wisconsin Parkside – Working Papers Manual

EGAPP, Inc. 123

Working Papers...

...contain the details of the evidence.

...document compliance with standards.

...provide a link between the fieldwork and the audit report

...serve as a record of the results of the audit and are the basis for the auditor's opinion.

EGAPP, Inc. 124

Basic Principles of Working Papers

Before developing a working paper you should clearly determine the following:

- **Purpose**

- **Information needed to complete the analysis**

- **Location of supporting documentation**

- **Tests or analyses needed to prove the condition(s) or conclusion(s)**

EGAPP, Inc. 125

The Three Purposes of Working Papers

- *Support* **for the auditors report**

- *Supervision* **of the audit**

- *Review* **of the quality of the audit by other auditors and by oversight officials. (i.e. QC and peer reviews)**

THAT'S ALL TODAY FOLKS ON WORKING PAPERS!

EGAPP, Inc. 126

Evidence – Documentation - Findings

- **Now that we understand audit evidence, let's review how the evidence is used to develop audit findings**
- **Findings must be supported by audit evidence**
- **Key findings are better supported by "triangulated" evidence**

Findings – Identify Finding Elements

- **Findings are often regarded as containing the elements of Condition, Criteria, Effect and Cause**
- **Auditors may be asked or choose to develop only selected elements**
- **Elements needed for a finding depend on the objectives of the audit (par 7.72)**

Review linkage to logic model/ evidence and critical thinking

Findings –
Elements of a Causal Finding

- **Criteria –** *what should be or could be*
- **Condition –** *what is, (usually in comparison to criteria)*
- **Effect –** *so what (what happens if the condition doesn't match the criteria)*
- **Cause –** *why*

EGAPP, Inc. 129

Findings –
Which Elements to Develop?

Do we want to:

- **Describe what is being done?**
- **Determine if a problem exists?**
- **Establish the effect?**
- **Identify the cause?**
- **Recommend a solution?**
- **Learn the impact of an intervention?**
- **Make a cost and benefit analysis?**

EGAPP, Inc. 130

Report Contents Standard – Objectives, Scope and Methodology

Readers need information on OS&M

- ◆ To understand the audit purpose
- ◆ To understand the nature of the audit work performed
- ◆ To understand any significant limitations
- ◆ For perspective on what is reported (to judge merits of the audit work and what is reported)

  (par 8.09)

Report Contents Standard – Scope

<u>Scope</u>: Describes depth and coverage of work conducted (par 8.11, 8.12)

- ◆ Explain relationship between population and items sampled and what was audited
- ◆ Identify organizations, geographic locations, and period covered
- ◆ Report kinds and sources of evidence and any limitations
- ◆ Significant constraints imposed on the audit

Report Contents Standard-Objectives

- **Objectives must contain a subject and performance aspect**
- **Objectives drive conceptualization and development of the audit program**
- **The audit program drives development of the scope and methodology (procedures)**
- **The audit procedures result in evidence which is used to support the findings which must link back to the objectives**

EGAPP, Inc. 133

Report Contents Standard – Methodology

Methodology: Explain the evidence gathering and analysis techniques used

- ◆ Describe any comparative techniques applied
- ◆ Describe the criteria used
- ◆ Describe sampling design and why it was chosen and if results can be projected

  (par 8.13)

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Report Contents Standard – Findings

<u>Findings</u>

- ◆ Report findings by providing credible evidence that relates to the audit objectives
- ◆ Findings should be supported by sufficient, appropriate (relevant & reliable) evidence
- ◆ Present in manner to promote understanding and provide convincing but fair presentation in proper perspective
- ◆ Provide selective background information

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Conclusions

- **We've reviewed Critical Thinking and Auditor Judgment, Audit Programs, and Evidence to reach conclusions about designing audits, collecting information, developing findings, and reporting results.**
- **These tools can each be helpful at different steps in the audit process.**
- **Let's review key themes:**

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Conclusions and Key Themes

- **From critical thinking to evidence and development of findings, audits seek to analyze and document problems, allowing policy makers and the public to enact solutions.**
- **We hope this course is useful in helping you develop the logic and evidence to support your findings and provided tools and techniques to develop convincing reports and achieve important results!**