



Audit Sampling Concepts

Auditors almost always sample. While we rarely look at 100% of a universe, we conclude (or opine) about the whole of the universe. That introduces sampling risk - that is, how likely we are to be wrong; or reliability, that is, how likely we are to be right. Sampling risk goes down by looking at more samples, and by being sure the sample items are representative of the universe.

- Sampling is testing less than 100% of a universe or population
- Statistical and non-statistical sampling are both acceptable
- Always document reasons behind:
 - The sample size
 - How the sample was selected (so that it is representative of the universe)
 - The impact of any errors found on the effectiveness of controls

Typical methods of selecting samples:

- Block
- Haphazard – without bias
- Judgmental
- Random
- Systematic

Anytime there are “many” items in the universe, you likely need to test at least 30 items. Have a magic number!

Testing Techniques – to gather Sufficient, Competent, Relevant, Useful evidence:

- Observing
- Questioning
- Analyzing
- Verifying
- Investigating
- Evaluating
- Walk Through
- Audit Sampling

Types of Evidence

- Physical
- Testimonial
- Documentary
- Analytical

Workpapers

Based on the documentation provided:

- Can someone else understand the source, reason, and conclusions of the workpaper?
- Would someone else reach the same conclusion as the person doing the work?
- Can someone else locate all the items needed to retest samples?
- Are samples representative and sufficient?
- Are all statements “closed” – that is, no open items or “to do’s” that are not resolved?
- Are all references to other sources correct?
- Do all workpapers show evidence of who prepared them, and when?

All the documents tested don't need to be in the workpapers, as long as they can be retrieved later. Specifics about what was tested and reviewed need to be in the workpapers. (For instance, don't say you looked at 10 invoices without giving the invoice numbers or some way of identifying them in the future. Copies for the workpapers aren't usually needed as long as the invoices can be retrieved later if needed.)

Use of summary and conclusion memos, detailed schedules, indexing and cross-referencing, and tick-marks are common audit workpaper techniques.

Electronic Workpapers

- Workpapers should be created as the audit progresses, not at the end.
- Establish an indexing and filing scheme up-front, and stick with it. This is a key planning task.
- Everything needs a predetermined place.
- Always put file names and dates in the footer of printed documents.
- Clean-up Word documents, or print to PDF, to get rid of comments and edits before distributing.

Meeting the Budget

- Budgets are typically the number of hours or days allocated. Deadlines are typically a date and time.
- Budgets are guesses based on personal experience. There is no magic formula to determine a budget.
- In general, Preliminary Survey (40%), Fieldwork (50%), Reporting (10%) are targets.
- The budget for the audit fits within a larger Annual Audit Plan, and an overage in one audit takes time away from another audit.
- An audit area will expand to fit the time allotted to it – pressure to finish is essential.
- Meeting a budget starts with planning the audit and being clear on audit objectives.
- If you are within 90% of the budget without finishing the audit, and you have not gotten an overage approved -- you are in trouble.

Reporting Audit Issues

- Be specific about the Criteria you evaluated against. If the client does not agree with the criteria, they won't ever agree with the issue.
- Don't say the Criteria is "Best Practices" unless you have actual evidence of that. Criteria is also NOT "What Audit thinks should be happening".
- The Condition is what is actually happening.
- The Criteria and the Condition should be facts, and not be in dispute, or else it is too soon to move forward.
- The Impact or Results need to be stated in business terms or internal control terms, not audit terms.
- The Cause is difficult to determine, and requires management's discussion and involvement.
- A Recommendation, if provided, must address the Cause – repeating the Criteria is not necessary.

Other Tips

- Flowcharts and narratives are for auditors to understand the process – they are high-level, not desk manuals.
- A recommendation does not add value – implementation does.
- Trust everyone, but verify
- Don's ASS-U-ME things!

To the Audit Manager

- Get engaged early – If you really don't know what should be done in the audit, the in-charge doesn't either. Your input on Scope and Objectives is needed in the Preliminary Survey phase, not in the Reporting phase.
- Talk to the audit client management BEFORE there are any findings.
- Always give at least verbal feedback to the in-charge as the audit progresses and when the audit is over.
- Be available when the audit team needs to talk and shield them from "while you are there" tasks – from above and below, both inside and outside of audit.

Supervising the Audit Staff

- It's your job – run it! Make decisions, but give tasks in big chunks not small bites.
- Be clear on the budget and your expectations for preparation of the audit workpapers.
- Don't ask "How are things going?" Instead ask "Where are you in the Audit Program?" – everyday.
- Tell staff you will be watching their electronic workpapers and expect work to be documented as they go. Hold staff accountable for their work.

The Applicable Standards

2300 Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1 The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.