

# Larry's Cheat Sheet - Auditing Techniques

## The Professional Practices Framework (PPF)

The Professional Practices Framework includes the *Standards* and the Practice Advisories and other items.

- The Definition
- The Code of Ethics
- The *Standards*
- Practice Advisories
- Development and Practice Aids such as books and seminars

## Types of Audits and Auditing

**External Auditing** - The responsibility of the external auditor is to report on the organization's financial statements, and for publicly traded companies in the US, the internal controls over financial reporting. They serve third parties who need reliable financial information.

**Internal Auditing** - See definition on back. They serve the needs of the organization.

**Financial Audit** - Focuses on the accuracy of published financial statements in accordance with Generally Accepted Accounting Principles. Internal controls are studied to determine the extent of account balance testing to perform.

**Operational Audits** - Reviews of the functions of an organization, focusing on the efficiency and economy of operations, and the effectiveness with which those functions achieve their objectives. Internal controls, which include policies and procedures, exist to help ensure objectives are achieved.

**Compliance Audit** - Review of procedures, processes or transactions to determine if they follow established laws, regulations, policies or guidelines. Sometimes includes a review of the internal controls management has established to ensure compliance.

**IT Audit** - Review of general and application controls to ensure automated transactions are processed with CAATS (complete, accurate, authorized, timely and safeguarded).

**Business Process Audit** - Review of the manual and automated steps in a business process (series of sequential steps) to determine the adequacy and effectiveness the controls management has established in the process.

**Comprehensive Audit** - Term used by General Accountability Office in the US to encompass the audits of all the activities within a government entity.

**Program Audit** - Review of plans and procedures established to achieve the specific end-result of a program. This differs from reviews of continuing activities within an enterprise.

**Assurance Auditing** - Relates to auditing where the IA provides information related to financial, operational, and compliance activities as well as other efforts such as controls and risk management activities.

**Consultative Auditing** - Using of problem-solving methodologies to make direct improvements in the circumstances or conditions of the client.

**Control Self-Assessment** - Involves employees directly involved in a business activity in evaluating the risks, controls, efficiencies, strength/weaknesses or other aspects of the activity.

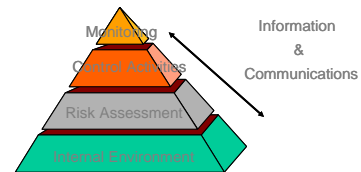
## Internal Controls

**Definition:** Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

From *Internal Control - Integrated Framework (COSO I/C)*.

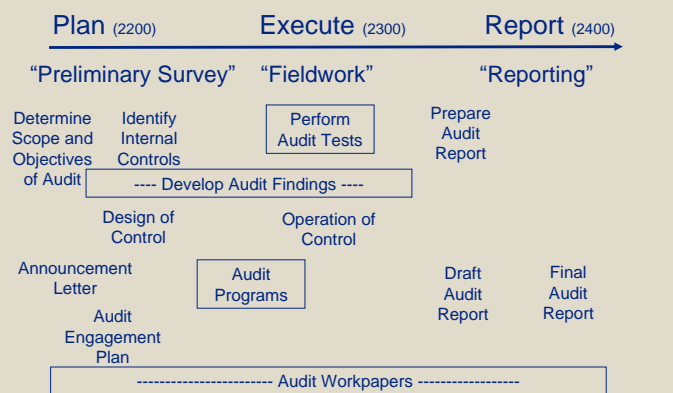
## The COSO Pyramid (I/C)



## The COSO Cube (ERM):



## Phases of an Internal Audit



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# Larry's Cheat Sheet - Auditing Techniques

## The Standards

Mandatory for IIA members and CIA's since 1/1/2004

**Code of Ethics** - Principles and Rules of Conduct related to Integrity, Objectivity, Confidentiality, and Competency for individuals and entities that provide internal auditing services.

**Definition** - Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

ATTRIBUTE STANDARDS - Organizations and Individuals
• 1000 PURPOSE, AUTHORITY, AND RESPONSIBILITY (PAR)
• 1100 INDEPENDENCE AND
• 1200 PROFICIENCY AND DUE PROFESSIONAL CARE
• 1300 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

PERFORMANCE STANDARDS - Nature of Services
• 2000 MANAGING THE INTERNAL AUDIT ACTIVITY
• 2100 NATURE OF WORK
• 2200 ENGAGEMENT PLANNING
• 2300 PERFORMING THE ENGAGEMENT
• 2400 COMMUNICATING RESULTS
• 2500 MONITORING PROGRESS
• 2600 MANAGEMENT'S ACCEPTANCE OF RISKS

### 2200 ENGAGEMENT PLANNING

2201 Planning Considerations. Planning considerations should include the following for the activity being reviewed: Objectives; Significant risks; Adequacy and effectiveness of risk management and control systems; and Opportunities for making significant improvements to risk management and control systems.

2210 Engagement Objectives. The engagement objectives should address the risks, controls, and governance processes associated with the activities under review.

2220 Engagement Scope. The scope should be sufficient to satisfy the objectives of the engagement and include consideration of relevant systems, records, personnel, and physical properties, including those under control of third parties.

2230 Engagement Resource Allocation. Resources should be allocated effectively to ensure achievement of engagement objectives. Staffing should include consideration of the nature and complexity of each engagement, time constraints, and available resources.

2240 Engagement Work Program. Formal audit work programs should be developed to ensure engagement objectives are achieved. The formal programs should include the objectives, and procedures to be performed and documented to achieve the objectives. Program should be approved in advance (prior to commencement of work), and any changes to the program approved promptly.

### 2300 PERFORMING THE ENGAGEMENT

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

2310 Identifying Information. Information identified should be sufficient, reliable, relevant, and useful in achieving the engagement's objectives.

2320 Analysis and Evaluation. Engagement results and conclusions should be based on appropriately documented analyses and evaluations.

2330 Recording Information. Engagement results and conclusions should be adequately supported and documented by relevant information in the workpapers.

2340 Engagement Supervision. Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. Evidence of supervision should be documented, at a minimum, via the workpaper review process.

### 2400 COMMUNICATING RESULTS

Internal auditors should communicate the engagement results promptly.

2410 Criteria for Communicating. Communications should include the engagement's objectives, scope, conclusions (as applicable), recommendations and action plans. Satisfactory performance should be acknowledged in engagement communications.

2420 Quality of Communications. Communications should be accurate, objective, clear, concise, constructive, complete and timely.

2421 Errors and Omissions. If a significant error/omission is found to be contained in a final engagement communication, the CAE should communicate corrected information to all individuals who received the original communication.

2430 Engagement Disclosure of Noncompliance with the Standards. When noncompliance with the Standards impacts a specific engagement, communication of the results should disclose: Standard(s) with which full compliance was not achieved; Reason(s) for noncompliance; and Impact of noncompliance on the engagement.

2440 Disseminating Results. The CAE should disseminate results to appropriate individuals who can ensure that the results are given due consideration.

Above text was extracted from The IIA's Quality Assurance Manual 5<sup>th</sup> Edition, Tool 19. The most recent Practice Advisories were issued May, 2007.

**Testing Techniques** - to gather Sufficient, Competent, Relevant, Useful evidence:

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

**Larry's Other Tips:**

- There is no such thing as a good audit finding
- Everything auditors do should help reduce the need for after-the-fact auditing
- A recommendation does not add value - implementation does.
- Trust everyone, but verify