Larry's Cheat Sheet – Running an Audit

Setting Audit Objectives

- Know the purpose of the audit, from the annual audit planning process.
- Link audit objectives to the objectives of the department or process being audited.
- Be specific about the audit period: "As of December 31, 2007" is different than "For the two years ending December 31, 2007".
- Always consider the possibility of fraud
- Set specific objectives:
  - Evaluate the operation of internal controls as defined by the COSO framework
  - Identify and test Risk Assessment and Control Activities (per COSO) within the department
  - Evaluate the input, processing and output procedures in the revenue process to see that all transactions are Complete, Accurate, Authorized, Timely and Safeguarded.
  - Evaluate compliance with departmental and corporate policies and procedures.
  - Evaluate internal controls over the compliance with departmental and corporate policies and procedures, using the COSO definition of internal control.
  - Not:
    o Do an audit
    o Improve the client's operations
    o Evaluate the propriety of transactions
    o Review the procedures in xyz department

Communicating with the Client

- Involve them early, even in setting the scope.
- Don't ask "What are your risks?" or "What are your problems?" Better questions are: "What are the most important things your department does for the company?" or "What are your department's business objectives?" and "How do you know if the department is meeting its objectives?"
- Discuss potential audit issues or concerns timely, and within the context of THEIR business objectives – not within the context of your audit objectives.
- Remember, they are running the department even while the audit is progressing, and have many important projects going on.
- Trust the manager to do the right thing – the auditors cannot be the conscience of the organization.

To the Audit Manager

- Don't surprise the audit client or the in-charge auditor with the Announcement Letter – at least telephone first.
- 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.

Evaluating Auditors

- Be clear up-front on roles and responsibilities and expections, and evaluate on those.
- Give bad news, or concerns, immediately but privately
- Remember, you know more than they do – put yourself in their shoes
- The evaluation is a much bigger thing to them than it is to you - Act like evaluations are an important event.
- Ask them for input on how you did – upward feedback.

Larry Hubbard
& Associates

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.

Electronic Workpapers

- Workpapers should be created as the audit progresses, not at the end. The lead auditor should monitor this as audit progresses.
- 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 just guesses based on personal experience, not on specific facts. There is no magic formula to determine a budget.
- In general, Preliminary Survey (40%), Fieldwork (50%), Reporting (10%) are targets.
- For any audit area, 16 hours, 16 days, or 16 weeks are all possible budgets, depending on the objectives, scope, knowledge of the area, and testing performed.
- 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.

Reviewing Workpapers

Based on the documentation provided:

- Can you reach the same conclusion as the auditor doing the work?
- Can you 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?
- Have you documented that your review was done?

Client Satisfaction Feedback

- You may not call them "clients" but you should treat them that way.
- Formal survey, discussed an Entrance and Exit Meetings both, should ask at least:
  - Were you kept informed of the status?
  - Were you involved as appropriate?
  - Were the auditors professional?
  - Were issues discussed effectively?
- The audit team needs to get the feedback ASAP.

Other Tips

- Flowcharts and narratives are for auditors to understand the process – they are high-level, not desk manuals.
- A manager is responsible for setting the policies and procedures for a department, and for having ways of knowing if they are followed - those are internal controls.
- If auditors say "management doesn't know anything about controls" it is usually the auditors who are wrong.
- Risk-based auditing really should be called importance-based auditing.

Larry Hubbard
& Associates