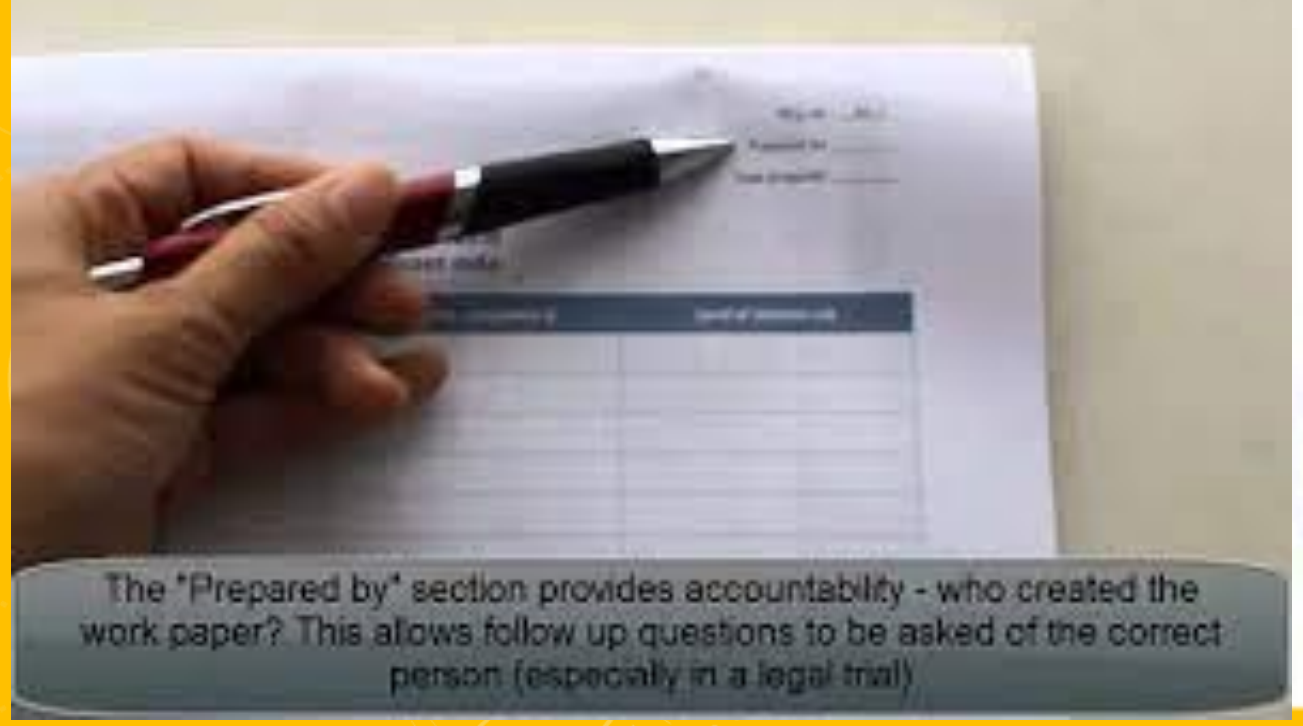


ICPAK
Uphold Public Interest

Internal Audit Master Class

Internal Audit Working Papers

Wednesday, 28th April 2021

Lake Naivasha Resort, Nakuru County

Presentation Outline

- Relevant IIA Standards applicable to Audit Fieldwork
- Definition of Audit Fieldwork
- Objectives of Audit Fieldwork
- Components of Audit Fieldwork
- Audit Working Papers
- Purposes of Working Papers
- Ownership, Access, Retention and Confidentiality of Working Papers
- Conclusion
- Question & Answers

Relevant IIA Standards in relation to Audit Fieldwork

- ***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.

- ***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.

Audit Process

Planning

- Preliminary research
- Entrance Meeting
- Process discussions
- Information gathering
- Identification of scope items

Fieldwork

- Interviews
- Process reviews
- Document reviews
- Testing and verification
- Discussion of audit issues/findings

Reporting

- Develop draft audit report
- Exit meeting
- Management responses
- Final report distribution

CONTINUOUS COMMUNICATION

Definition of Fieldwork

- *Fieldwork is the process of gathering evidence for measurement and evaluation. Audit evidence is obtained by observing conditions, interviewing people and examining records. Audit evidence must provide the basis for audit opinions, conclusions and recommendations. The fieldwork stage concludes with a list of significant findings from which the auditor will prepare a draft audit report.*
- *The purpose of the conducting the audit engagement is to gather sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified in the planning phase.* ***The Internal Auditor should execute all the tasks on the basis of Audit Programmes prepared at the end of the Planning Phase of the Audit Engagement.***

Objectives of the Fieldwork

- *The purpose of fieldwork is to complete the audit procedures identified in the audit programs. These procedures usually test the major internal controls and the accuracy and propriety of the transaction.*
- *Throughout fieldwork, professional judgment should be used to determine whether evidence gathered is sufficient, relevant, competent, and useful to conclude on the established objectives.*
- *As the fieldwork progresses, the auditor discusses any significant findings with the audit client. Hopefully, the audit client can offer insights and work with the auditor to determine the best method of resolving the finding.*
- *Usually, these communications are oral. However, in more complex situations, memos and/or e-mails are written in order to ensure full understanding by the audit client and the auditor.*

Components of Fieldwork

- *Gaining an understanding of the activity, system or process under review and the prescribed policies and procedures.*
- *Observing conditions or operations.*
- *Interviewing people.*
- *Examining accounting, business and other operational records.*
- *Analyzing data and information.*
- *Reviewing systems of internal control and identifying internal control points.*
- *Evaluating and concluding on the adequacy (effectiveness & efficiency) of internal controls.*
- *Conducting compliance testing.*
- *Conducting substantive testing.*
- *Documenting audit findings*
- *Determining if observations and recommendations reported in prior audits have been corrected and/or implemented.*
- *Preparing draft audit report*

Documentation of the Fieldwork

- *All audit work performed should be supported by documented evidence.*
- *Each audit program should be supported by cross-referenced working papers (schedules, memos, spreadsheets, etc.) on which testing performed and results achieved are documented.*

CAATs

Computer-assisted audit techniques and tools (CAATTs) have the ability to improve the range and quality of internal audit analysis. These tools provide functionality to analyze large volumes of data from different sources to be compared and organized – this is also known as data mining and data analytics. This may mean that the internal auditor can test a whole population, rather than just a sample.

Some examples of their usage include the ability to access and extract information from client databases:

- *Total, summarize, sort, compare and select from large volumes of data in accordance with specified criteria.*
- *Tabulate, check and perform calculations on the data.*
- *Perform sampling, statistical processing and analysis.*
- *Provide reports designed to meet particular audit needs*

CAATs

However, integrating analytics into audits is not without its challenges.

Access to audit relevant data can be limited for example identifying where data is located in complex organizations environments, where different divisions are utilising different systems; confidentiality and privacy concerns or additional work required to 'normalize' data where different processing platforms are used, none of which define grouping by the same parameters.

In addition the availability of qualified and experienced internal audit resources; as well as timely integration of analytics into the audit.

WHAT ARE WORKING PAPERS

What are Working Papers

- ***Internal Auditors should record relevant information to support the conclusions and engagement results. IIA Performance Standard – 2330***
- *WP should be prepared by the internal auditors and reviewed by management of the Internal Audit activity.*
- *WP should record the information obtained and the analyses made and should support the bases for the observations and recommendations to be supported.*
- *Working papers record audit evidence obtained during an internal audit assurance or consulting engagement. They demonstrate the internal audit work completed and provide the link between the agreed scope of work, the audit programme and the audit report.*

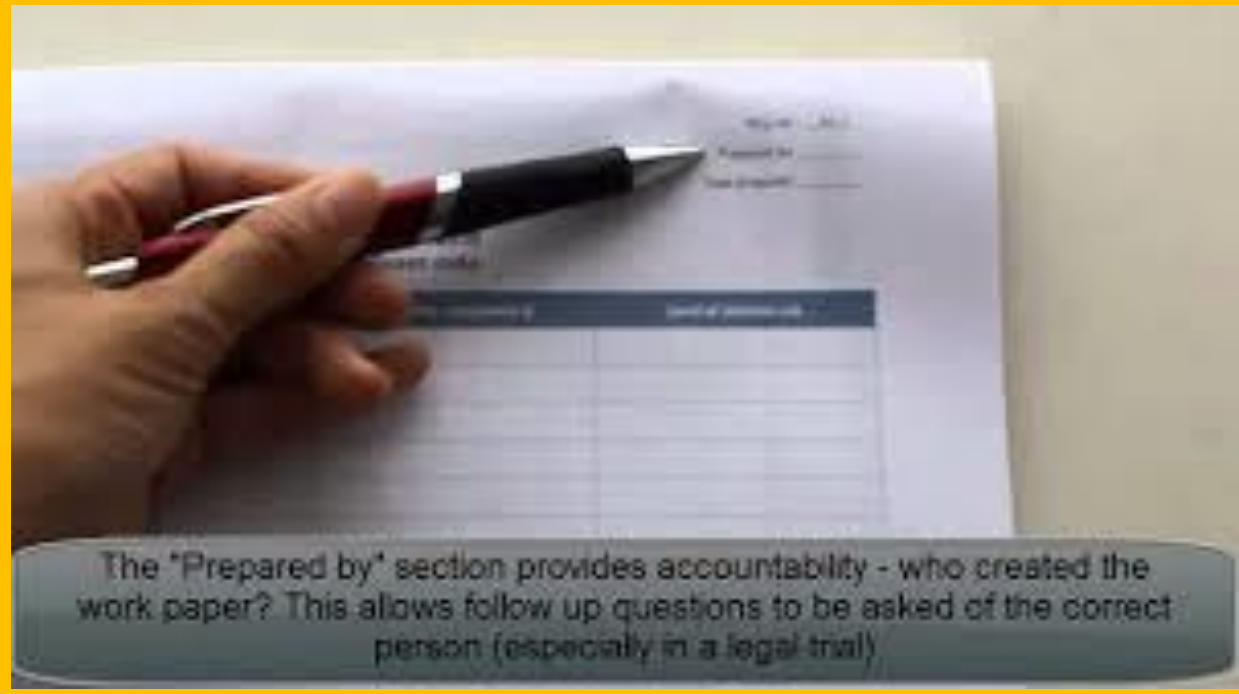
Working Papers

- *The working papers may be in a number of forms such as checklist, questionnaire, flowchart, spreadsheet, narrative notes from interviews, annotated copies of procedures, policies, notes from focus groups and discussions.*
- *Internal audit activities tend to use standard templates for recording purposes which may be in hard copy, Word or spreadsheet templates or part of an audit software package.*
- *Document the audit process.*
- *They record the information obtained and the analyses made during the audit process. They are prepared from the time the auditors first launch their assignment until they review corrective action and close the audit project*

Working Papers

They document the following steps in the audit process:

- *The plans for the audit including the audit program*
- *The examination and the evaluation of the adequacy and effectiveness of the systems of internal control.*
- *The audit procedures followed, information obtained and the conclusions reached.*
- *The supervisory reviews.*
- *The audit reports.*
- *The follow-up of corrective action.*



Purposes of Working papers

- ✓ *Provide the principal support for the engagement communications.*
- ✓ *Aid in the planning, performance and review of the engagement.*
- ✓ *Facilitate 3rd party reviews.*
- ✓ *Provide basis for evaluation of the internal audit activity's quality program.*
- ✓ *Provide support in circumstances such as insurance claim, fraud cases and lawsuits.*
- ✓ *Aid in the professional development of the internal audit staff.*
- ✓ *Demonstrate the internal audit activity's compliance with the standards.*
- ✓ *To record audit evidence.*
- ✓ *To identify and document audit findings*

Purposes of Working papers……

- ✓ *To provide a means by which external auditors can evaluate the audit work and then use it in their own assessment of the organization's system of Internal Control.*
- ✓ *To create a background and reference data for subsequent reviews. Audit projects are often repeated and followed.*
- ✓ *To help facilitate peer reviews- auditors are getting involved in quality reviews as part of the quality assurance process.*
- ✓ *To serve as part of the documentation required by the IIA Standards. Evidence of compliance must be documented.*
- ✓ *To lend support for discussions with operational personnel. Good W/P can be a good line of defense when audit conclusions and recommendations are challenged.*
- ✓ *To offer a basis for supervisory review of the audit's progress and accomplishments. Review of W/P are more productive than conversations between audit supervisor and the auditor.*

Working papers should document the following:

- *Planning process*
- *Risk Assessment.*
- *Examination and evaluation of the adequacy and effectiveness of the system of Internal Controls.*
- *The engagement procedures performed, information obtained, and conclusions reached.*
- *Review and communication*
- *Follow-ups*

Forms of working papers

- *It may be in form of paper, tapes, disks, diskettes, films and other media. (these media excluding paper may necessitate maintaining back-up copies).*
- ***Regardless of the format, the working papers should include some basic information:***

- *The name of the client*
- *The period covered*
- *The date (audit working paper prepared)*
- *Title (subject matter)*
- *Assignment/file reference*
- *Clear cross-reference to linked documents or working papers (either on a hard copy file or electronically)*
- *The initials/signature of the internal auditor who prepared the working paper (or electronic equivalent)*
- *The initials/signature of the audit manager who has reviewed the working paper, and the date on which the review was undertaken (or electronic equivalent)*

Types of working papers

Engagement papers should be complete and include support for engagement conclusions reached. ***These may include:***

- *Planning document and engagement program.*
- *Control questionairres,flowcharts,checklists and narratives*
- *Notes and memorandum resulting from interviews.*
- *Organization data-organization charts and job descriptions*
- *Copies of contracts and agreements.*
- *Information about operating and financial policies*
- *Results of control assessments.*
- *Letters of confirmation and representation.*
- *Analysis of tests of transactions, processes and account balances.*
- *Results of analytical auditing procedures.*
- *Engagement final communication and management responses.*
- *Engagement correspondences if it documents engagement conclusions reached.*

Working paper preparation techniques

- *Each WP should identify the engagement and describe the contents or purpose of the working paper.*
- *Each engagement WP should be signed (or initialed) and dated by the internal auditor performing the work.*
- *Each engagement WP should contain an standard index/reference number.*
- *Audit verification symbols (tick marks) should be explained*
- *Sources of data should be clearly identified.*
- *WPs to be linked to the audit programme.*
- *Every workpaper will be properly identified. The workpaper heading will include the name of the auditee, a description of the information presented, and the period covered or applicable date.*
- *The use of audit tick mark symbols may aid in identifying the procedures followed in preparing a workpaper and avoid lengthy explanations.*

Working paper preparation techniques……

A good indexing system for working papers should be simple and easily expanded.

For example, the main sections of the engagement project may be represented by capital letters. Within each main section, worksheets may then be represented by Arabic numerals. If further division is needed, additional numerals may be added, for example, B.2.1.

Effective cross-referencing facilitates:

- ✓ *Supervisory review*
- ✓ *Subsequent engagements.*
- ✓ *Finding information in the working papers.*
- ✓ *The preparation of the final engagement communication.*

Rules of preparation of working papers

- ***Keep papers neat-*** *they give an immediate impression of care and professionalism- names & titles should be clearly printed. WPs have been known to end up in courts of law. Sloppy papers lose their worth as evidence.*
- ***Keep papers uniform****. Use uniform size and appearance. Larger pieces of papers should be folded in a manner that simplifies later review.*
- ***Keep papers clear and understandable****. To make sure there is no misunderstanding, the client should be asked to confirm the auditor's interpretation.*
- ***Keep only relevant and material working papers****. They should be directly related to the audit objectives. Written directives may often contain much information that is not germane to audit.*
- ***Adding value-****Documentation and consideration of the root causes of audit findings to provide some insight as to why things are happening so that management focus actions upon appropriate solutions. This might simply be a record of discussions or the results of focus groups, surveys and questionnaires.*
- ***Accurate and reliable-*** *Information is technically correct and where necessary cross-referenced to other working papers. Where soft copy only is stored reference as to how it can be accessed must be documented.*

Rules of preparation of working papers……..

- ***Keep papers economical**. Avoid unnecessary listing and scheduling. Use copies of client's records or print-outs. These can be shown by distinctive tick marks, what audit steps were carried out, also recording audit comments in the margins. Make full use of previous audit working papers and they should be updated, re-referenced and then initialed.*
- ***Keep papers reasonably complete**. They should leave nothing hanging. No questions asked should go unanswered. Supervisors should date and record their review notes or questions. The auditor should answer each note of the review notes recording each answer on the other side of the sheet.*
- ***Keep the writing simple**. Jargon should be avoided and if used should be explained in a separate part of the working papers. The test is whether, another auditor can step into the project mid-stream (if transferred), understand what was done, and proceed with the examination without wasted effort.*
- ***Use a logical working paper arrangement**. Each distinct subject should be included in a separate segment of the papers.*

Rules of preparation of working papers……

- *Operation being audited and background information, statistics e.t.c. explain what was covered and what was not covered.*
- *Include a descriptive heading identifying the company, function audited, nature of data contained in the paper, date and period of audit.*
- *Reference to the audit project-(such as case registration number)*
- *Tick marks and other symbols should be uniform throughout the audit. Should be small and neatly placed, useful but unobtrusive. They should be explained in the footnotes.*
- *The date of preparation and the auditor's initials. A separate sheet should explain the list of names of all the auditors and other personnel on the audit project and their initials.*
- *The reference number of the working papers. There is nothing more discouraging both to the auditor and to the reviewer as a mass of WPs un-numbered and un-controlled.*

Electronic Working Papers

- *Audit working papers may take the form tapes, disks, diskettes, film or other media.*
- *Help reduce the complexity and increase the flexibility of documentation.*
- *Facilitate retrieval of audit evidence, storage and even back-up.*
- *Access to WPs should be controlled by the use of passwords. Remember the information is confidential and other sensitive information may be contained therein.*
- *More entities are using software work paper packages which contain templates and allow the auditor to develop the audit program and work paper templates at the same time.*

Types of working papers

Permanent Audit Files

The Permanent Audit File (PAF) contains information that should be relevant to the current and future audits.

A PAF is useful for the following reasons:

- *It ensures that important documents are not overlooked, and it consolidates such documents at one location.*
- *It provides a basis for consistency in testing. Carry forward schedules, which compare ratios, averages, etc., can be used as an auditing tool.*

Contents of a Permanent Audit File

There is no standard organisational rule for the PAF. However, the following types of documents should normally be included in the file:

i. Organisational charts

ii. Description of activities, systems, procedures and business plans

iii. Key analytical ratios

iv. Latest Corrective Action Plan

v. Legal and regulatory issues impacting the entity.

vi. Risk assessment

vii. Correspondence of continuing interest to future audits

viii. Updated audit programmes

Contents of a Current Audit Files

The Current Audit File (CAF) contains schedules and documents relevant to the current audit. It contains a record of all of the audit work completed and any conclusions arrived at. Current work paper files should have consistent organisation and documentation irrespective of the type of audit.

There is also no standard organisational rule for the CAF. However, it should contain, as a minimum, following work papers:

i. Significant findings and issues identified during the audit and how they were resolved

ii. Audit Planning Memorandum (APM) and related documentation

iii. Administration/Correspondence memos and documents

iv. Follow-up of prior audit reports and matters that have not been resolved

v. The tailored and updated audit programmes

vi. Analytical review. Any significant trends, material account balances and other conclusions reached in the course of the analytical review should be documented along with their effect on audit scope

vii. Detailed testing schedules.

Contents of a Current Audit Files

- *The working papers should represent a clear record of the audit process, procedures, findings, conclusions and reports. Working papers should be capable of standing on their own without requiring any supplemental oral explanation from the Auditor(s) who did the work.*
- *Consequently, an independent reviewer should be able to understand all of the audit work performed, the findings and how exceptions and other issues were resolved and the conclusions drawn from the work.*
- ***The work papers are used for a number of important functions:***
- *They demonstrate whether the audit was done in compliance with the relevant standards*
- *ii. They aid in the organisation, control, administration and review of the audit work*
- *iii. They form the evidence of the audit work performed and the conclusions drawn from that work*
- *iv.They support the audit report.*

Review of Working Papers

- ***Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. IIA Performance Standard – 2340***
- *All work papers should be reviewed to ensure that they properly support the audit report and that all necessary procedures have been performed. The review should be conducted at a level of responsibility higher than that of the preparer of the working papers. Work paper review is part of the* ***quality control process****. Evidence of supervisory review should be documented in the work papers. Such evidence should consist of the reviewer initialing and dating each work paper after it is reviewed.*
- *The HIA should review selected audit files. Where appropriate, especially with more junior or inexperienced staff, this review should include spot checks on the relevant documentation to ensure that the work has been performed carefully and diligently.*

Review of Working Papers

- *When the Audit Manager visits an audit team on a review mission he or she should also review the work papers for all Internal Audit assignments completed and discuss any issues arising from the review with the internal auditors on the job.*
- *As a further quality check, a second level of review should also take place. This should include reviews by the HIA. The review should consist of a random spot check of work papers to ensure compliance with Internal Audit Standards and to identify areas where the reviewer's wider experience can be utilised to improve the audit process.*
- *Responsibility for first and second stage review will depend on the seniority of the auditor who performed the detailed audit work.*
- *Irrespective of the person performing the first and second stage review, some key tasks must be performed at certain levels:*

Review of Working Papers

i. *The HIA must review all written Internal Audit reports*

ii. All written Internal Audit reports, memos and letters must be reviewed and vetted by the Head of the Internal Audit Unit

When performing the first stage review, the reviewer should: -

i. Ensure that work papers have been dated and appropriately initialed

ii. Undertake spot checks on the transactions checked by the Auditor to ensure that these checks have been undertaken properly and where appropriate the payments were correctly passed for payment.

Issues arising from the review, which are not resolved immediately, should be noted on a review sheet by the Audit Supervisor. The auditor concerned should answer the review questions. If satisfied with the response, the reviewer should sign off the review sheet. However, care should be taken to ensure that the work papers provide adequate evidence that questions raised during the review have been resolved.

Review of Working Papers

- *Retain the review notes as a record of the questions raised by the reviewer and the steps taken in their resolution*
- *Discard the review notes after the questions raised have been resolved and the appropriate audit work papers have been amended to provide the additional information requested.*
- *The reviewers should use the review sheets to provide feedback to auditors and to ensure that lessons are learnt for future audits. To be effective, this feedback should be provided as promptly as possible.*

Ownership and access to working papers

- *All working papers produced by IAD are owned by the Entity. Access to IAD working papers shall be restricted to authorized IAD staff members at all times. Requests for access to assignment working papers by management may be granted after the approval of the HIA.*
- ***Management and staff of IAD must observe the confidentiality of information acquired during the audit and not disclose information without appropriate authority, unless there is a legal or professional obligation to do so.***
- ***Work papers are the property of the department.*** *They shall be in the custody of the Head of Internal Audit and accessible only to authorised officers. The Head of Internal Audit may give members of the management or the external auditors' access to work papers. This type of access is necessary to substantiate audit findings because it allows the management to use the audit work for other business purposes and to permit coordination of internal audit efforts with external auditors.*
- ***Releasing audit work papers to any other outside organisations shall require the approval of the Accounting Officer/MD/CEO and or Legal Department as appropriate.***

Retention of working papers

- *All IAD working papers shall be retained electronically and in the current file. The file should be archived five years after the date of closure.*
- *Internal audit shall save* ***a weekly backup on an external hard disk for continuity in case of a disaster or an incidence resulting to data loss.***
- *Auditors shall be responsible for maintaining backups of their desktop files on separate media. Auditors may wish to back up non-sensitive data to the 'audit' folders on the shared drive on the entity's server, relative to the need for security of the files*
- *Auditors shall be responsible for maintaining backups of their desktop files on separate media. Auditors may wish to back up non-sensitive data to the 'audit' folders on the shared drive on the entity's server, relative to the need for security of the files.*
- ***The Head of Internal Audit shall develop a retention requirement for work papers that are in keeping with the entity's guidelines or any other State Corporations' requirements.*** *At a minimum, a set of work papers shall be retained until the next audit of the particular unit is complete or five years, whichever is longer.* ***TeamEWP*** *can retain working papers for this period or longer depending on policy.*

Confidentiality of Working Papers

- *All staff members in the department at all levels are responsible for the confidentiality of audit related documentation. Unauthorized disclosure of any IAD official information is prohibited.*
- *Each working paper or document relating to an audit is confidential and all staff should observe the confidentiality of information acquired during the audit. Confidential documents should be locked and kept inside drawers or scanned and saved in computer files of each staff for ongoing assignments.*
- *On completion of the assignment, Auditors should obtain guidance from the HIA on the continued retention of such documents. Auditors should ensure that no confidential document is left unattended or left out openly on desks, printers, copiers or fax machines. Shredders should be used to dispose of confidential documents.*
- *HIA should ensure that these confidentiality principles are adhered to.*
- *IAD staff shall officially report to the HIA any cases where its reports or other official documents are leaked to unauthorized third parties*

Conclusion

- *Internal Auditors at all levels within an internal department and across all organizations are responsible for creating, updating and delivering workpapers.*
- *Effective workpapers serve to add value to the internal audit process by serving as a way of communicating key facets of the engagement across team members, assist the CAE in ensuring that engagements are being performed in conformance with the Standards, and help to protect the reputation and integrity of the internal audit function within and outside the organization.*
- *Effective workpapers facilitate efficient documentation of all phases of an engagement from planning through final communications. With modern internal audit software, effective workpapers allow internal audit teams to work seamlessly across geographies and facilitate repeating steps in future engagements*

Conclusion

- *WPs provide evidence that the audit work has been completed to a sufficient standard and support the auditor's conclusions.*
- *The working papers should stand alone in that an experienced auditor with no connection to the audit who reads them can see how the conclusions and recommendations have been arrived at.*
- *Conformance with the Standards is critically important to the future reputation of the internal auditing profession. Workpapers serve as the evidence that internal audit engagements are being performed in conformance with the Standards, assisting internal audit professionals with growing their personal reputations and that of their department within their organization.*

Questions & Answers