

## SECTION C-3

### PERFORMING THE ENGAGEMENT

IIA Standard 2300, Performing the Engagement Planning, requires that Internal Auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

#### **Identifying Information**

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

- Sufficient information – factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- Reliable information – 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.

#### **Analysis and Evaluation**

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

#### **Documenting Information**

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

#### **Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement.

#### **Identifying Information**

Internal auditors identify/collect information in order to support work performed to support conclusions on the engagement objectives. Information used should be sufficient, reliable, relevant, and useful. Information is obtained from various sources, including information obtained from management, university/departmental information systems, and interviews conducted by internal auditing staff, as well as information from external sources.

When considering when information is sufficient, reliable, relevant and/or useful, the following definitions should be used.

- Sufficient information – factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- Reliable information – 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.

### **Analysis and Evaluation**

Internal auditors base their conclusions and engagement results on appropriate analyses and evaluations. Analyzes and evaluations are based on the interviews conducted and information obtained during an engagement. There are several techniques that can be used to analyze and evaluate information. Techniques, such as comparison of actual to what should be, customer surveys, process flowcharts, financial analysis, decision trees, etc. can be used to help evaluate information received during an engagement.

### **Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results. Documentation is retained in a set of working papers that are created for all engagements. The organization, design, and content of engagement working papers depend on the nature and objectives of the engagement. Working papers document all aspects of the engagement from planning to communicating results. Working papers document the information obtained and the analyses made during an engagement. They also support the results and conclusions on an engagement.

Working papers generally:

- Aid in the planning, execution/performance, review, and reporting of engagements,
- Provide principal support for engagement results and communications,
- Document whether engagement objectives were achieved,
- Support the accuracy and completeness of the work performed,
- Provide a basis for quality assurance and improvement,
- Facilitate third-party reviews,
- Provide support in circumstances such as insurance claims, fraud cases, and lawsuits where the working papers may be relevant,
- Aid in the professional development of the audit staff, and
- Demonstrate the Internal Auditing Department's conformance with the *Standards*.

Working papers may include the following types of information:

- Planning documents and audit programs.
- Control questionnaires, flowcharts, checklists, and narratives.
- Notes and memoranda resulting from interviews.
- Organizational data, such as organization charts and job descriptions.
- Copies of important contracts and agreements.
- Information about operating and financial policies.
- Results of control evaluations.
- Letters of confirmation and representation.
- Analysis and tests of transactions, processes, and account balances.
- Results of analytical auditing procedures.
- The audit report and management's responses.
- Audit correspondence if it documents audit conclusions reached.

The Internal Auditing staff uses TeamMate, an electronic working papers software, to document work performed on an engagement. Depending on the nature of the engagement, TeamMate could be used to document and retain all work performed in electronic format, used to retain scanned hardcopy working papers, or even as a reference point to hardcopy working papers filed in the file room. Generally, working papers in TeamMate are a combination of electronic and scanned hardcopy working papers.

Working papers should be clearly titled, headings labeled, tickmarks explained, sources indicated, conclusions documented, and appropriately referenced.

The use of standard working paper format is encouraged for all engagements. Working paper format for Departmental Reviews is currently being used. The development of standard work programs, questionnaires, templates, and working paper formats are also encouraged and are being used Departmental Reviews, Research Center Reviews, Travel and Entertainment, and General Operational Audits.

At the conclusion of an engagement, the In-Charge Auditor determines which working papers to retain for future engagements. Typical working papers that are retained include work programs and questionnaires. These working papers are then retained in TeamMate TeamStore, as approved by the Executive Director.

#### **Access to Engagement Records/Working Papers**

Working papers include reports, supporting documentation, review notes, and correspondence, regardless of storage media. Working papers are the property of the University of Houston System and are retained by Internal Auditing Department. Working papers are accessible only to authorized personnel. Working papers often contain sensitive information or data that must be protected from

unauthorized use or review. Working papers and report drafts are not subject to release in accordance with the provision of the Texas Governance Code, section 552.116.

When sending an email, the following disclaimer should always be used:

**Attention:** Texas Government Code, Sec. 552.116, provides that internal audit draft reports and work papers are not subject to Open Records Requests. This correspondence is intended only for the individuals addressed in this email and should not be shared with others without the permission of the Chief Audit Executive of Internal Audit.

Management and other members of the organization may request access to audit working papers. Such access may be necessary to substantiate or explain audit findings or to utilize audit documentation for other business purposes. These requests for access are subject to the approval of the Chief Audit Executive.

It is common practice for internal and external auditors to grant access to each other's audit working papers. Access to audit working papers by external auditors is subject to the approval of the Chief Audit Executive.

There are circumstances where requests for access to audit working papers and reports are made by parties outside the organization other than external auditors. Prior to releasing such documentation, the Chief Audit Executive should obtain the approval of senior management and/or legal counsel, as appropriate.

### **Retention of Working Papers**

All correspondence, memoranda, and working papers pertaining to work performed by the Internal Auditing Department are official files of the University of Houston System and are retained accordingly. All such data is to be kept in the appropriate file (hardcopy and/or electronic) by the Internal Auditing Department for three (3) years after the audit is closed, terminated, completed, expired or settled.

Working papers involved in pending or on-going litigation are retained the later of the retention period above or upon the Office of the General Counsel informing the Internal Auditing Department they no longer need the working papers.

### **Engagement Supervision**

Engagement supervision is conducted throughout an engagement. Supervision includes:

- Ensuring internal auditor collectively possess the required knowledge, skills, and other competencies to perform the engagement.

- Providing appropriate instructions during engagement planning and approving the work program.
- Ensuring completion of the work program.
- Determining that the working papers adequately support the engagement objectives, conclusions, and recommendations.
- Ensuring that communications are accurate, objective, clear, concise, constructive, and timely.
- Ensuring engagement objectives are met.
- Providing opportunities for development of internal auditor's knowledge, skills, and other competencies.

Engagements are supervised to help ensure that the engagement objectives are achieved, quality is assured, and that internal audit staff is being developed. The extent of engagement supervision depends on the proficiency and experience of the internal auditors assigned to the engagement and the complexity of the engagement.

Differences in professional judgment between the Chief Audit Executive and the internal audit staff performing an engagement regarding a significant issue (the pertinent facts) are discussed and further research is conducted, if appropriate. If a difference still exists regarding the significant issues, the disposition of the differing viewpoints should be documented in the working papers.

The use of TeamMate helps facilitate the supervision of an engagement. TeamMate creates a standard approach to document work performed on an engagement. TeamMate also allows for the monitoring of an engagement in real time by Internal Auditing management and the Auditor-in-Charge. It also allows the Auditor-in-Charge to review the working papers in real time, thus providing real-time feedback to the internal audit staff.

Working papers are reviewed to help ensure that they support engagement communications and the audit procedures performed. The Auditor-in-Charge on a project is responsible for ensuring that all working papers are properly completed and signed-off in TeamMate. Certain working papers are signed-off in TeamMate by the person performing the quality assurance review for the engagement. The Auditor-in-Charge is responsible for reviewing working papers and preparing coaching notes, as appropriate. Coaching notes are addressed by the internal audit staff and cleared by the Auditor-in-Charge during the engagement, as appropriate. Coaching notes are removed from the working papers after the quality assurance review has been completed. The coaching notes are not retained as part of the final working papers, but are retained for review by the peer review team during a Quality Assurance Review.

Working papers are generally reviewed by senior level internal auditors; however, a second review of working papers may be performed by non-senior level internal audit staff on routine audits that are not complex, as approved by the Executive Director. Also, senior level internal auditors may

review other senior level auditor's working papers, as approved by the Executive Director. Review of the working papers should help ensure that the working papers:

- Are complete and accurate,
- Support the procedures performed,
- Support the audit conclusions,
- Support the audit report,
- Organized and appropriately cross-referenced,
- Are able to "stand alone", i.e. clearly indicate what work was performed, why the work was performed, the conclusions reached, etc., and
- Follow departmental administrative standards.

## **OTHER ENGAGEMENT / WORKING PAPER CONSIDERATIONS**

### Audit Sampling Methodology

The sampling techniques and methodology will be determined based on the engagement. The sampling methodology should be appropriate to meet the engagement objectives and approved by the Auditor-in-Charge. The sampling procedures employed must be documented in the working papers.

### Extent of Testing

The extent of compliance testing is based upon the results of the Internal Control Evaluation, preliminary surveys, and/or auditor judgment. Compliance tests are used to determine effectiveness of prescribed controls in order that they may be relied upon to determine the nature, extent, and timing of substantive testing. No audit benefit is derived from applying compliance tests to ineffective internal controls or when costs of compliance testing exceed the benefits. The extent of compliance tests will vary directly with the reliance placed on internal controls, while the extent of substantive tests will vary inversely with the reliance placed on internal controls.

### Materiality

Materiality thresholds will be established based on the nature of the engagement, after discussion with the Auditor-in-Charge. The basis used to determine materiality must be documented in the working papers.

### Cross-referencing

Cross-referencing is commonly done: 1) within the working papers; 2) between working papers and audit exceptions; and 3) between audit exceptions and the draft audit report. Cross-referencing should indicate both to and from. The cross-referencing:

- Helps the auditor to find the source of the information.
- Helps the reviewer in reviewing the report and working papers.
- Provides details that the auditee might ask for.
- Simplifies the preliminary review before the next audit.

Noted below are some examples of where cross-referencing would be appropriate. Cross-referring is not limited to financial data. Also, TeamMate facilitates the cross-referencing process by automating cross-references for certain information.

- Amounts included in analyses from financial statements.
- Amounts included in lead sheets from detail worksheets to.
- Amounts included in audit reports from the working papers.
- Information in a working paper that is contained in another working paper.
- Audit conclusions to audit exceptions.
- Audit exceptions to the draft audit report.
- Audit exceptions not included in the audit report to the explanation for why it was not included in the audit report.