



A Guide to Planning, Conducting, and Reporting on Internal Auditing Assurance Engagements in the Federal Government of Canada

(Substantially Completed in April, 2004)



Acknowledgements

The Audit Guide Development Cluster Group would like to specifically acknowledge and thank the following federal departments and agencies and outside organizations for the contribution of materials, information and expertise in the preparation of this guide:

- ▶ Human Resources Development Canada (now Human Resources and Skills Development Canada);
- ▶ The Canada Customs and Revenue Agency (CCRA);
- ▶ The Royal Canadian Mounted Police (RCMP);
- ▶ The Atlantic Canada Opportunities Agency (ACOA)
- ▶ Public Works and Government Services Canada (PWGSC);
- ▶ The Office of the Auditor General for Canada (OAG);
- ▶ The Treasury Board of Canada Secretariat (TBS) Centre for Excellence in Internal Audit (CEIA);

The Institute of Internal Auditors (IIA) has kindly permitted the *IIA International Standards for the Professional Practice of Internal Auditing* (including elements of the glossary of terms) to be reprinted in this guide.

Table of Contents

1.0	Introduction.....	1
1.1	Preface.....	1
1.2	Purpose and Scope	2
1.3	The IIA Standards.....	2
1.4	Context for the Department or Agency Internal Audit Activity.....	3
1.5	Assurance Services and Consulting Services	6
1.6	Conventions and Definitions	6
2.0	The Internal Auditing Process	9
2.1	Overview of the Internal Auditing Process	9
2.2	Corporate Audit Plans.....	10
3.0	Planning the Engagement	13
3.1	Overview	13
3.2	Flow Chart of the Process for Planning the Engagement.....	14
3.3	Initiate the Engagement.....	15
3.4	Understand the Audit Entity	15
3.5	Assess the Audit Entity’s Risks.....	17
3.6	Determine the Engagement Objectives, Scope, Criteria, and Approach	21
3.7	Estimate Resource Requirements and Preferred Timing	26
3.8	Document the Results of Engagement Planning	27
3.9	Ensure the Auditee Understands the Engagement Plan	28
3.10	Develop the Audit Program.....	29
3.11	Summary of the Engagement Planning Process	30
4.0	Conducting the Engagement	31
4.1	Overview	31
4.2	Hold Initial Meeting with Auditee.....	31
4.3	Complete the Audit Program.....	32
4.4	Document Audit Findings.....	35
4.5	Prepare Working Papers.....	37
4.6	Reach Conclusions	39

5.0	Reporting the Results of the Engagement.....	43
5.1	Overview	43
5.2	Debrief the Auditee	45
5.3	Prepare the Draft Report.....	45
5.4	Discuss with Auditee.....	48
5.5	Issue Draft Report and Request Management Action Plan	48
5.6	Review the Management Action Plan	49
5.7	Prepare the Report for Audit Committee Approval	49
5.8	Finalize and Make the Report Available	50
6.0	Close the Engagement and Plan Follow-up	51
6.1	Overview	51
6.2	Summary of Closing-out Activities	51
6.3	Follow up on the Engagement	51
7.0	Quality Assurance and Continuous Improvement.....	52
7.1	Quality Assurance.....	52
7.2	Auditee Satisfaction	54
	Appendices.....	55

1.0 Introduction

1.1 Preface

The Treasury Board (TB) *Policy on Internal Audit* (the TB Policy) states that the prime role and responsibility of the internal audit function in the Government of Canada as the provider of professional assurance services to departmental senior management.

Government departments and agencies (“ . . . organizations considered to be departments under the meaning of Section 2 of the *Financial Administration Act*.”¹) are required to have an effective, independent, and objective internal audit function that is properly resourced to provide sufficient and timely assurance services on all important aspects of a department or agency’s risk management strategy and practices, management control frameworks and practices, and information used for decision making and reporting.

The Institute of Internal Auditors (IIA) is the worldwide professional organization for internal auditing. It defines the internal auditing as “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.”²

This guide is intended to provide the federal government’s internal auditing community with practical guidance, tools, and information for planning, conducting, and reporting on internal auditing **assurance** engagements. The IIA defines an engagement as “A specific internal audit assignment, task or review activity, such as an internal audit . . . or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.”³ **For the purposes of this guide, engagement refers solely to an internal audit undertaken with the objective of providing assurance. An engagement in this context is thus understood to be an assurance engagement.**

This guide is intended to incorporate and build on the good practices and tools already in place within the federal government’s internal auditing community. Its sole intention is to provide guidance and direction to users who are assumed to possess at least a basic knowledge and understanding of management frameworks and controls and to be capable of exercising sound professional judgment. The guide focuses on major items that should be considered when planning, conducting, and reporting on an engagement. Users of the guide are expected to form

¹ *Policy on Internal Audit*, section 5, April 1, 2001

² IIA, *The Professional Practices Framework*, January 2002, page 26

³ IIA, *The Professional Practices Framework*, January 2002, page 25

their own conclusions on the most suitable approach for their specific engagements and to plan and perform their engagements accordingly. Furthermore, the needs of each department or agency will vary, as will the objectives of each engagement within those departments and agencies. It is therefore expected that individual departments and agencies will apply the guide, and develop or adapt work instruments, to suit their specific requirements.

To expand upon the essential guidance provided in the body of this guide, additional resources are referenced throughout.

1.2 Purpose and Scope

Although not prescriptive, this guide is primarily for use by internal auditors, and it is intended to help facilitate the performance of engagements with the rigour and due professional care necessary for the provision of assurance, as envisioned in the *Policy on Internal Audit* and in the IIA document entitled *International Standards for the Professional Practice of Internal Auditing* (the IIA Standards).

To demonstrate the links between this guide and the TB *Policy on Internal Audit* (accessible at http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/ia-vi/pia-pv11_e.asp) and the IIA Standards, related references from the policy and standards are cited at the beginning of certain sections.

1.3 The IIA Standards

In June 1999, the IIA Board of Directors approved a new professional practices framework in order to carry the profession into the 21st century. The core elements of this Framework are the Code of Ethics and a set of professional standards. The latest additions and amendments to the Standards were issued in December 2003 and became effective January 1, 2004, as the *International Standards for the Professional Practice of Internal Auditing*. These Standards are recognized internationally as containing sound guidance for internal auditors.

The *Policy on Internal Audit* states that “Internal auditors in the Canadian Government are to utilise these standards [the IIA Standards] in carrying out their internal auditing responsibilities, wherever these standards are not in conflict with this policy and any related guidelines or other guidance provided by TBS.”⁴

The IIA also issues occasional practice advisories related to specific standards when it wishes to provide clarification on particular issues. A set of practice advisories that deals with most aspects of planning, conducting, and reporting the engagement, as well as with governance and management aspects of the internal audit activity currently exists.

⁴ *Policy on Internal Audit*, Appendix B, April 1, 2001

The IIA Standards are included as Appendix A to this guide. The most recent versions of the standards and practice advisories are available to the internal auditing community; they can be accessed electronically through the IIA at <http://www.theiia.org/>.

1.4 Context for the Department or Agency Internal Audit Activity

A sound and effective internal audit activity normally operates within a supportive environment that consists of the following:

- ▶ a well communicated departmental or agency internal audit policy that sets out the roles, responsibilities, and authorities;
- ▶ a strong and active audit committee that approves annual and longer term audit plans, approves reports, and ensures follow-up action;
- ▶ an ongoing quality assurance and continuous improvement program that ensures that the internal audit activity results in value added products for senior management; and
- ▶ an awareness of Access to Information Act and the Privacy Act.

1.4.1 The departmental or agency internal audit policy

The *Policy on Internal Audit* specifies that departments and agencies should consider developing their own internal audit policy, consistent with the TB Policy, to set out the following:

- ▶ the scope of the internal audit function;
- ▶ the roles and responsibilities of the internal audit committee, departmental management, and the internal audit function;
- ▶ the internal audit planning processes and the priority to be given to the coverage of areas of higher materiality and risk;
- ▶ the internal audit reporting processes, particularly the process for integrating management action plans into completed audit reports and the subsequent monitoring of the follow-up to these plans; and
- ▶ the types of internal audit assurance and consulting services that will be provided.⁵

A checklist for the development of a department- or agency-specific internal audit policy is contained in Appendix B.

1.4.2 The departmental or agency audit committee

The *Policy on Internal Audit* requires that deputy heads establish an active audit committee, chaired by a senior departmental executive, to provide advice and counsel to assist the deputy

⁵ *Policy on Internal Audit*, Appendix D

head in discharging his or her responsibilities for risk management, the design and operation of management control frameworks, and the quality of financial and other performance information used for decision making and reporting. A strong, active audit committee can also assist the deputy head in fulfilling responsibilities under the *Policy on Active Monitoring* to inform the Treasury Board of Canada Secretariat (TBS) of significant issues with respect to risk, controls, or other concerns with management practices as they arise.

Responsibilities of the audit committee should normally include ensuring that the results of internal audit are incorporated into the departmental priority setting, planning, and decision-making processes; approving the internal audit policy, the annual internal audit plan and budget as well as the annual assessment of overall materiality and risks associated with it; approving internal audit reports and the management action plans developed to address the recommendations made in these reports; and monitoring the adequacy and timeliness of actions taken in relation to management action plans.

In most departments, the deputy head or associate deputy head chairs the audit committee. “It is important that the chair bring as much independence and objectivity to the committee as possible, and not be an individual whose direct responsibilities include department-wide functional activities subject to frequent audit.”⁶ Committee members should generally be at the assistant deputy head level or equivalent and should be selected, on the basis of their abilities, experience, and interest, as being most able to effectively contribute to the activities of the committee. An audit committee composed of members below these levels risks the perception that there is little support for internal audit by senior management and the likelihood that internal audit will be focused on matters of little interest to the deputy head. A current trend in the private sector, which may gain greater currency in the public sector, is to have audit committee members who have no direct involvement in the operations or financial results of the organization.

1.4.3 Quality assurance

An effective internal audit activity quality assurance program normally operates at three levels: within the conduct of a specific engagement, within the internal audit group, and outside the internal audit group.

An effective quality assurance program can

- ▶ ensure that engagements are in compliance with the departmental or agency internal audit policy as well as with the TB Policy and TBS and IIA standards;
- ▶ ensure that the services provided are effective, efficient, timely, and of good quality;

⁶ Policy on Internal Audit, Appendix C

- ▶ clarify and reinforce the effectiveness of policies, procedures, approaches, tools, and techniques used by internal auditors and identify good practices; and
- ▶ provide internal audit staff and management with the basis and criteria for continuous improvement.

The first level of quality assurance is provided by the internal auditor and by supervisory internal auditors who exercise due professional care (i.e. the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstance) throughout the engagement. It implies reasonable care and competence, not infallibility or extraordinary performance. The most fundamental elements of this level of quality assurance are the quality checks and supervisory and management oversight carried out continually throughout the engagement.

The second level of an effective quality assurance and continuous improvement program is the independent quality assurance review performed by members of the internal audit group who have not been involved in conducting a specific engagement. While these reviews might examine any aspects of the operation of the internal auditing activity, they are most common as a review of specific engagements, conducted either prior to or shortly after the conclusion of the engagement. These reviews frequently serve as learning and improvement opportunities for both the internal auditors whose work is subject to review and the internal auditors performing the reviews.

The third level of quality assurance is the independent quality assurance review whereby a team of qualified professionals external to the department or agency, e.g. from the IIA or a major consulting organization, is brought in to provide an independent assessment of the internal audit group's compliance with professional standards and its effectiveness in terms of factors such as alignment with the department or agency's objectives, its independence, its services, and its management. The IIA requires that internal audit groups undergo a formal comprehensive review of effectiveness and compliance with relevant standards every five years.

Section 7.1 provides more information on quality assurance and continuous improvement and presents tools that should be helpful in establishing a reliable quality assurance program.

1.4.4 The *Access to Information Act* and the *Privacy Act*

The *Access to Information Act* and *Privacy Act* apply to all internal audit reports, records, working papers, and files. Consequently, care must be taken by internal auditors throughout the conduct of the engagement to ensure that protected information is not inadvertently disclosed.

Because the *Policy on Internal Audit* requires that all completed internal audit reports be issued in a timely manner and be made “. . . accessible to the public with minimal formality in both

official languages,”⁷ internal auditors must take care to ensure that all access to information and privacy (ATIP) provisions are considered prior to issuing a completed internal audit report. In addition, internal auditors must be aware of the possibility that their working papers and related work products may be subject to an access to information request. Internal auditors should always consult their department or agency’s ATIP specialists if they are unsure of the applicability of the legislation to their engagement. The specialists can provide advice on the appropriate response under the circumstances.

1.4.5 TBS Centre for Excellence in Internal Audit

The TBS Centre for Excellence in Internal Audit offers products and services to assist departments and agencies in ensuring that they have created the supportive environment essential to an effective internal audit activity. The Centre has a Web site that provides links to relevant documents, including examples of best practices in internal audit policy and risk-based planning and of useful tools for engagement performance as well as key contacts. The Web site address is http://www.tbs-sct.gc.ca/ia-vi/home-accueil_e.asp.

1.5 Assurance Services and Consulting Services

The *Policy on Internal Audit* defines assurance services as “. . . objective examinations of evidence for the purpose of providing an independent assessment of risk management strategies and practices, management control frameworks and practices, and information used for decision-making and reporting.”⁸

Internal audit groups may provide management with consulting services, such as risk assessment or control self-assessment. This guide is based on the premise that only an engagement conducted with due care and rigour in accordance with professional standards and the process described herein provides the foundation for the provision of assurance services.

1.6 Conventions and Definitions

IIA Standard 1200 — Proficiency and Due Professional Care — Engagements should be performed with proficiency and due professional care.

IIA Standard 1210 — Proficiency — Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

⁷ *Policy on Internal Audit*, section 4

⁸ *Policy on Internal Audit*

1.6.1 Conventions

Within the federal government of Canada, internal audit is performed in diverse organizations that vary in purpose, size, structure, and complexity. As a result, internal audit groups in departments and agencies vary greatly in terms of how they are resourced to fulfill their mandate and in terms of the roles and responsibilities assigned to members of those groups with respect to the internal auditing process.

For example, a large audit group that relies almost exclusively on indeterminate staff to conduct its engagements may typically have one or more directors responsible for setting policy and procedures; for conducting department- or agency-wide risk assessments; for preparing annual and longer term audit plans; for managing a number of engagements concurrently, including initiating formal communication with senior officials on plans and results; and for ensuring quality control at the engagement planning and reporting stages.

In such a structure, there would normally be a number of audit managers each responsible for implementing a set of assigned engagements over the course of a year. Usually these managers would be actively involved in the planning and reporting of each engagement while overseeing the conduct of the engagement, particularly if it involves a number of different sites. At a minimum, the manager will approve the audit programs, but he or she may also prepare them. Teams of auditors are formed to carry out the actual audit work, with a team leader usually assigned to develop and supervise the completion of the audit program. Auditors are assigned to complete portions of the audit program.

For large-scale engagements, the same team may move from site to site or a number of teams may be employed concurrently if time is of the essence. The team leader would normally be responsible for debriefing management on site and will frequently be expected to draft portions of the engagement report. Responsibility for the final draft report and debriefings at more senior levels would normally fall to the manager and the director.

It is more likely that a moderately sized audit group that has chosen to contract out the conduct of its engagements would have only a director and one or more audit managers. In this structure, the audit manager is usually called upon to conduct sufficient planning for the engagement to enable the preparation of a statement of work to allow prospective bidders to prepare a clear proposal to conduct the engagement. Once the contractor is selected, the audit manager is typically responsible for managing the contract and for ensuring that the contractor's report meets the requirements of the statement of work and is in compliance with policies or standards established by the Treasury Board, the IIA, and the department or agency.

In a small audit group, one individual, or even one individual on a part-time basis, may be called upon to perform any or all of the planning and management responsibilities, occasionally with the assistance of contractors. The conduct of engagements would normally be contracted out, frequently to a private sector firm, through a standing offer or similar arrangement.

Regardless of the scope or strategy pursued by the internal audit group, it is critical that each group possess or obtain the necessary capacity and competence to complete its engagements in compliance with the *Policy on Internal Audit* as well as TBS and IIA Standards.

This guide uses the generic term “internal auditor” to refer to the individual performing the required step in the process, regardless of how any given internal audit group may assign responsibilities. Specific reference to other position titles will only be made when required for greater clarity. When the term “audit team” is used, it can include anyone with significant involvement in the engagement, including managers and directors.

In terms of the programs, services, activities, and systems that may be subject to internal audit, the term “auditable unit” is used to refer to any part of the entire department or agency audit universe that may be subject to internal audit in a meaningful way; the term “audit entity” is used to refer to a unit that has been selected for internal audit; and the term “auditee” is used to refer to the management and staff of the entity being audited.

1.6.2 Definitions

To supplement the descriptions and explanations in this guide, a glossary of terms is provided in Appendix C. If definitions conflict with those in the TB Policy, the definitions in the Policy prevail.

2.0 The Internal Auditing Process

2.1 Overview of the Internal Auditing Process

Whether at the level of the individual engagement or at the level of the corporate function, the internal auditing process is composed of three main phases, namely the following:

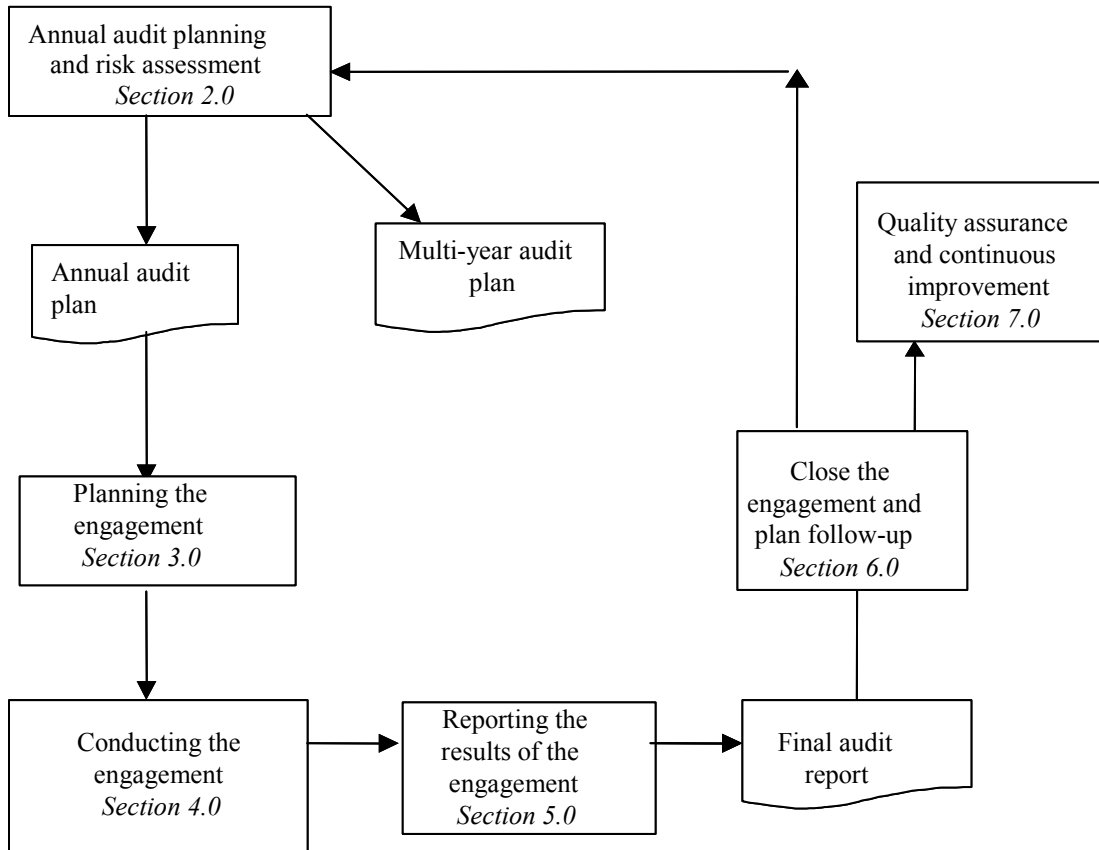
- ▶ planning;
- ▶ conduct; and
- ▶ reporting.

At the corporate function level, the internal audit group must establish what it is going to audit in a given year or longer term period (planning), it must implement its approved plan or program of audits (conducting), and it must account for the results achieved through the implementation of its plan (reporting).

At the engagement level, the internal auditor must establish what is going to be audited (planning), implement the approved plan (conducting), and communicate the results achieved (reporting).

The following flow chart provides a high-level, graphic illustration of the key elements of the internal auditing process at both the corporate function and the individual engagement levels.

Internal Auditing Process Flow chart



While the flow chart and the subsequent sections of this guide identify a number of distinct phases or activities, it is quite common that the internal audit activity, whether at the corporate or the engagement level, will be frequently flowing back and forth between phases or activities. For example, the audit universe, the corporate risk assessment, and the audit plans may be revised if it becomes apparent through post-engagement follow-up that expected improvements have not been achieved. At the engagement level, planning and conducting the engagement may need to be expanded if the ongoing supervisory quality assurance process reveals that additional issues require exploration.

2.2 Corporate Audit Plans

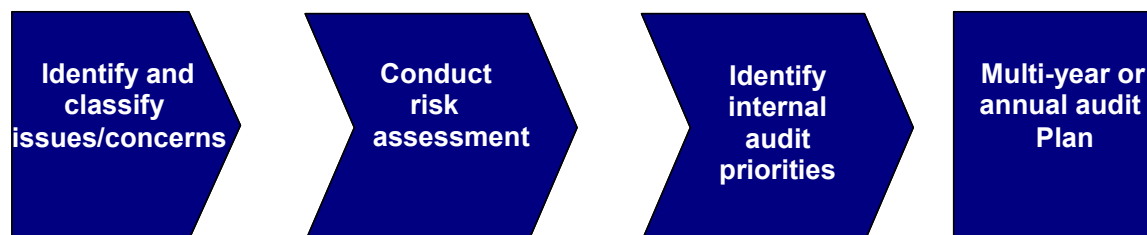
IIA Standard 2010 — Planning — The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.

The *Policy on Internal Audit* states that annual internal audit plans should “. . . summarize an annual assessment of the overall materiality and risks associated with the departmental risk management strategy and practices, management control frameworks and practices, and financial and performance information [and] identify and schedule planned audit engagements or other services to be provided by the internal audit function during the period of the plan.”⁹

In addition, IIA Standard 2010.A1 requires that “the internal audit activity’s plan of engagements should be based on a risk assessment undertaken at least annually. The input of senior management and the board should be considered in this process.”¹⁰ The risk assessment process should provide a means of organizing and integrating the internal auditor’s professional judgments for development of the audit work schedule.

To be consistent with the *Policy on Internal Audit* and IIA Standard 2010, the internal audit group in a department or agency should undertake an annual risk-based planning process to determine the internal audit priorities for the coming year. It is important to note that risk assessment for internal audit planning purposes is different from, and not a replacement for, the development of a corporate risk profile, as required under the *Integrated Risk Management Framework*. It is likely, however, that the development of risk information to identify internal audit priorities may be a valid source of information for a corporate risk profile and vice versa.

Key steps in corporate level planning



In essence, the annual assessment of risks and materiality within the audit universe and the identification of manageable audit units establish the internal audit priorities, some of which likely extend beyond the coming fiscal year. Thus, the multi-year plan provides an effective mechanism and consultative process for capturing longer-term (two to five years) priorities, whereas the annual plan constitutes the basis for carrying out specific engagements over one fiscal year.

⁹ *Policy on Internal Audit*, Appendix D

¹⁰ IIA, *International Standards for the Professional Practice of Internal Auditing*

The multi-year and the annual work plans should be closely linked to the department or agency's strategic plans and risk management strategy.

The annual plan should outline a prioritized list of proposed engagements, including the initial objectives and scope for each engagement and an estimate of required resources. The annual plan may also identify specific lines of inquiry based on the risk assessment (i.e. areas or issues for examination in planning the engagement) for each engagement.

An annual audit plan preparation checklist provided in Appendix D provides further guidance, based on TBS and IIA Standards, for ensuring that annual audit plans are effective in achieving senior management approval and in communicating the work to be performed. The TBS Centre for Excellence has published a document entitled *Internal Audit Plans: A Summary of the Requirements of the Policy on Internal Audit, the Internal Auditing Standards of the Government of Canada and the IIA Standards*, which is available on its Web site at http://www.tbs-sct.gc.ca/ia-vi/policies-politiques/plans/plans_e.asp. The Summary condenses the requirements and reconciles any overlap between the Government of Canada and IIA Standards. It also provides brief commentary on TBS expectations about audit plan content arising from each requirement. Departments and agencies may wish to consult the Summary to gain a fuller understanding of the elements that TBS would consider in ensuring compliance with the Policy and standards and in fostering best practices.

Once the audit committee approves the annual plan, the planning for individual internal audit engagements can begin, taking into consideration preferred scheduling periods throughout the year.

To support smaller departments and agencies in undertaking risk-based planning to set internal audit priorities, the TBS Centre of Excellence for Internal Audit has developed a *Risk-Based Internal Audit Priorities Toolset for Small Departments and Agencies*. The Toolset suggests an approach and provides some tools that may be helpful. The Toolset is available at http://www.tbs-sct.gc.ca/ia-vi/policies-politiques/priorities-priorites/priorities-priorites_e.asp.

3.0 Planning the Engagement

3.1 Overview

IIA Standard 1220 — Due Professional Care — Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

IIA Standard 1220.A1 — The internal auditor should exercise due professional care by considering the:

- ▶ Extent of work needed to achieve the engagement’s objectives.
- ▶ Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- ▶ Adequacy and effectiveness of risk management, control, and governance processes.
- ▶ Probability of significant errors, irregularities, or noncompliance.
- ▶ Cost of assurance in relation to potential benefits.

IIA Standard 2100 — Nature of Work — The internal audit activity should evaluate and contribute to the improvement of risk management, control and governance processes using a systematic and disciplined approach.

Policy on Internal Audit — Internal Auditing Standards for the Government of Canada (Appendix B) — the internal audit function . . . conducts individual audits in an effective and efficient manner with risk-based plans that address the scope of the engagement, work programs that meet the objectives of the engagement, and sufficient appropriate evidence that supports the findings and conclusions.

Once the engagement has been identified in the department or agency’s annual audit plan, it must be planned effectively in order to determine the specific objectives, scope, audit criteria, methodology, and resource requirements.

At the outset of the engagement planning process, the audit entity is usually defined in very broad terms. Very rarely is it practical or cost-effective to audit everything. By effectively identifying the risks, formulating meaningful objectives, and establishing an appropriate scope, the internal auditor is able to concentrate audit resources and effort on a relatively few key areas that can have a significant impact on the performance and results of the entity being audited.

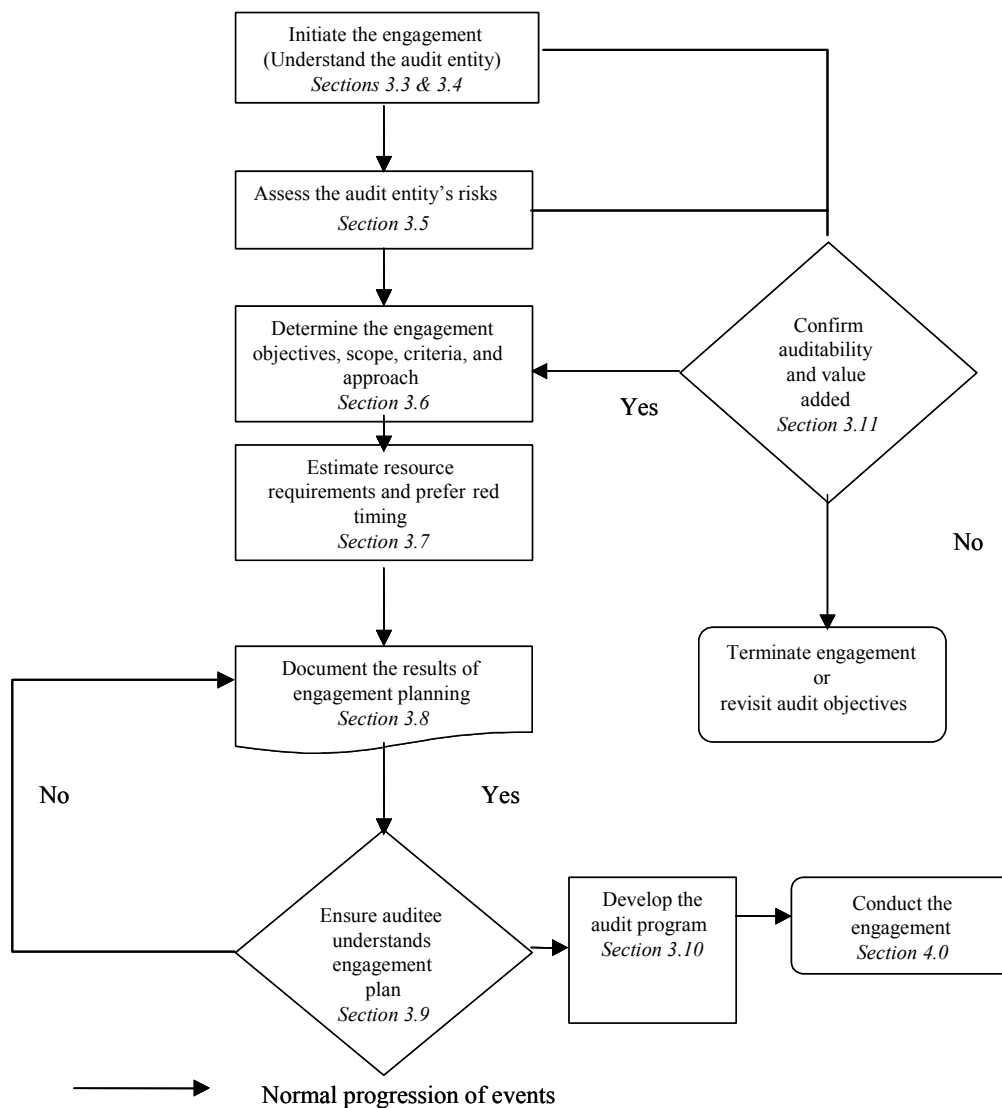
At the end of the planning phase, the internal auditor will be able to clearly articulate what will be audited, why it will be audited, and how it will be audited.

3.2 Flow Chart of the Process for Planning the Engagement

The planning phase of the engagement is the most important part of the process. The following flow chart is intended to provide an overview of the key steps and elements of the planning phase.

The internal auditor may not need to follow all of the steps in the process for every engagement and, as noted previously, may be working at different steps on different issues at different times; however, the internal auditor will be required to exercise professional judgment to ensure that engagements are carried out with the required due professional care and rigour.

Engagement Planning Flow Chart



3.3 Initiate the Engagement

In order to initiate an engagement, the following steps should be completed.

3.3.1 Notify the auditee

Before any work formally commences on an engagement, the internal audit group head should normally inform the auditee in writing. This communication should specify information known at the outset of the engagement, such as the initial objectives and scope, any specific considerations or concerns, and the names of the internal auditors assigned to the engagement at that point in time. The communication may also request the scheduling of an initial meeting and the identification of a primary contact to facilitate the co-ordination of the engagement work.

The formal communication can also provide an invitation for the auditee to offer suggestions for the objectives, scope, and criteria of the engagement. For example, the auditee may be invited to identify issues to be considered for attention, to participate in any risk assessment process, or to suggest criteria or benchmarks that may be relevant to the engagement.

3.3.2 Hold an initial meeting with the auditee

During the initial meeting, the internal auditor should clarify the known details of the program, activity, or organization to be audited (e.g. mandate, resources, structure) with the auditee and should explain the auditee's responsibilities in the process. Key documents deemed to be important to the understanding of the audit entity, as described below, can be requested at the initial meeting.

If the auditee has any suggestions for the development of engagement objectives, scope, or criteria, these can be discussed at this time.

3.4 Understand the Audit Entity

IIA Standard 2201 — Planning Considerations — In planning the engagement, internal auditors should consider:

- ▶ The objectives of the activity being reviewed and the means by which the activity controls its performance.
- ▶ The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- ▶ The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.

-
- ▶ The opportunities for making significant improvements to the activity's risk management and control systems.

In order to plan an engagement effectively, the internal auditor needs to develop a sound understanding of the entity, including its management and business processes and practices, policies and procedures, and external and internal environment. The internal auditor needs to be sensitive to any significant changes the audit entity has experienced recently or is facing.

Specifically, to be compliant with the *Policy on Internal Audit*, the internal auditor needs to be focussed on all important aspects of risk management strategy and practices, management control frameworks and practices, and information used for decision making and reporting.

Although it is neither possible nor practical to list all of the potential sources of information to gain a sufficient understanding of the audit entity, the following are some of the key documents and information that can be used:

- ▶ related legislation or regulations;
- ▶ policies, procedures, standards, manuals, and directives;
- ▶ results of previous audits or reviews by internal audit or by the Office of the Auditor General;
- ▶ organization charts;
- ▶ job descriptions and delegation instruments;
- ▶ listings of key personnel;
- ▶ process and system maps or flow charts;
- ▶ operational and financial data and reports;
- ▶ planning and performance reports (e.g. the annual report, the departmental performance report, the report on plans and priorities);
- ▶ management meeting reports or minutes;
- ▶ management control frameworks, e.g. results-based management and accountability frameworks, risk-based audit plans;
- ▶ risk assessments; and
- ▶ management studies or reports.

In addition to reviewing documentation and analyzing financial and non-financial performance information, some additional common techniques for gaining a greater understanding of the auditee during the planning stage include visiting sites and observing operations; interviewing management, field staff, central agency representatives, or subject matter experts; and reviewing internal controls documentation (see section 3.5.2).

To consolidate and confirm the understanding of the audit entity, some internal audit groups prepare a summary of the unit or activity subject to audit in the form of an auditable unit or audit entity profile. In some cases, internal audit groups will prepare and update these profiles, in the form of permanent files, as part of the annual risk assessment for corporate planning purposes. Such profiles can provide useful background information to assist in the preparation of engagement planning documents. The auditable unit profile should be reviewed with the auditee in order to confirm the internal auditor's understanding of the audit entity's business. A template for an auditable unit profile is provided in Appendix E.

3.5 Assess the Audit Entity's Risks

IIA Standard 1220.A3 — The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

IIA Standard 2110 — Risk Management — The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

IIA Standard 2210.A1-1 — Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment.

3.5.1 Risk assessment

The risk assessment process should provide a means of organizing and integrating the internal auditor's professional judgments for development of the engagement work schedule.

Where the risk assessment undertaken in developing the department or agency's annual audit plan is conducted with neither the benefit of extensive interviews with audit entity management and staff nor a study of their detailed documentation, a more detailed risk assessment should be undertaken during the planning phase of the engagement to confirm that the lines of inquiry and the initial objectives have indeed focussed on the most important risks facing the audit entity.

The objective statements for the engagement, as outlined in the annual audit plan, may need to be amended if the more detailed risk assessment reveals additional risks or assigns higher or lower risk scores to those risks already identified.

The steps involved in performing a detailed risk assessment as part of engagement planning are the same as those involved in performing the corporate level risk assessment:

- ▶ identify the risks associated with the achievement of the audit entity's objectives and expected results;

-
- ▶ assess the relative significance of the risks in terms of the likelihood of each risk occurring and its effect should it occur;
 - ▶ determine, on a preliminary basis, whether management's assertions on controls are likely to prevent or mitigate the occurrence of the risks of greatest concern; and
 - ▶ plan to focus engagement objectives and scope on testing the existence or adequacy and effectiveness of key controls over areas of greatest risk.

As part of engagement planning, the risk assessment may be performed by the internal auditor alone or by the internal auditor with the participation of auditee representatives.

In some cases, when a program has had to complete a risk-based audit framework, for example, the internal auditor may be able to rely upon a risk assessment that has been previously completed by the audit entity, possibly with the assistance of internal or external resources. In such cases, the internal auditor must be satisfied that the process was as complete and impartial as possible and that the results can be relied upon.

If the internal auditor wishes to involve the auditee in the risk assessment process and the auditee is willing, he or she may wish to do so in the form of risk self-assessment (a process whereby work teams, with a facilitator, identify, assess, and develop plans for those key risks that could prevent or facilitate the achievement of organizational objectives) or brainstorming sessions.

Whether the risk assessment is developed alone by the internal auditor or with the participation of the auditee, the internal auditor will want to ensure that the auditee understands the significance of the completed product as the internal auditor employs it in developing the engagement plan.

The internal auditor must be sensitive to situations where management may have undertaken a risk assessment and made decisions with which the internal auditor may not be comfortable. Since management can choose to accept, transfer, eliminate, reduce, or mitigate risks, the internal auditor may encounter situations where the auditee does not view a given risk with the same degree of concern that the internal auditor might. For example, if the auditee has chosen to accept a risk, the internal auditor may need to express, and be prepared to defend, an opinion that that course of action is inappropriate. In other situations, the internal auditor may need to proceed with testing to demonstrate that a chosen course of action to address a risk may be insufficient or unnecessary. In the event that serious disagreements arise with the auditee, the internal auditor may need to seek assistance from more senior members of the internal audit group in pursuing discussions with the auditee and their more senior management.

A template for documenting engagement risk assessment in Appendix F provides a possible structure for documenting the results of the engagement risk assessment process as it leads to the

development of objectives and scope. This structure could be employed in a table format to demonstrate the logic flow and linkages among elements.

3.5.2 Internal control

IIA Standard 2120 — Control — The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

IIA Standard 2120.A1 — Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization’s governance, operations, and information systems.

Internal control means different things to different people. Simply stated, control is making sure that what happens is what is supposed to happen and that, to the extent practical, undesirable results do not occur. Within the context of a department or agency, a control is any action taken by management or staff to enhance the likelihood that established goals and objectives will be achieved while eliminating or mitigating the impacts of risks and protecting assets, including money, reputation, physical property, and human resources. The collective set of controls in place within an organization is usually referred to as the internal control framework.

Many professional bodies have established and published detailed frameworks of internal control that represent their views of the most appropriate standards or practices that should be in place in the types of working organizations in which they are interested. For example, the Information Systems Audit and Control Association has endorsed “Control Objectives for Information and Related Technology.”

Two schools of thought on internal controls that have emerged from the private sector but are fairly broadly recognized by internal auditors as pertaining to government departments and agencies are the Criteria of Control, developed by the Canadian Institute of Chartered Accountants, and the National Commission on Fraudulent Financial Reporting “Committee of Sponsoring Organizations.”

Both of these models are premised on the view that an internal control system must work in support of the organization’s objectives for the organization to have efficient and effective operations, reliable reporting, and compliance with applicable legislation and regulations.

Common to most models of effective internal control are five key components:

- ▶ a control environment that essentially supports doing the right thing at the right time, e.g. senior management direction, values and ethics, assignment of responsibility and authority, and competent personnel;
- ▶ risk assessment that identifies, and regularly updates, key risks to the achievement of objectives;
- ▶ control activities, e.g. policies and procedures, that help management ensure that the right thing is done at the right time in the right way, e.g. delegation of signing authorities, segregation of duties, review of completed work, restricted approval levels;
- ▶ information and communication that clearly defines what is expected and what is actually taking place; and
- ▶ ongoing monitoring that ensures that controls are in place, where needed, are properly designed, and are working as intended.

Many models of internal control will prescribe specific criteria against which the internal control framework, and its components, can be assessed. In that sense, the models serve as criteria against which internal control frameworks and individual controls can be assessed (see section 3.6.3).

Controls are commonly thought of as either preventive or detective. As implied by the name, preventive controls are intended to prevent unintended consequences from occurring, i.e. they are intended to function during an activity or transaction, e.g. overpayment of salary, a contribution to an ineligible recipient. Preventive controls are intended to trigger an obstacle that prevents the routine processing of a particular transaction, e.g. a limit built into a payroll system, a certification of recipient eligibility. Some examples of preventive controls include providing (and reinforcing) training of employees on how to do the job correctly; segregating duties to reduce the opportunity for intentional wrongdoing; creating physical deterrents, such as locks, alarms and building passes, to deter theft; and convening peer review committees or expert panels to review project proposals and recommend funding. Preventive controls may also be thought of as application controls in the sense that they are embedded in the intended transaction, process, or activity.

Detective controls are intended to detect unintended consequences after they have occurred. Some examples of detective controls are reports that detail the information accessed by an employee from a department or agency's systems, reconciliation of an inventory listing to the actual physical material, and monitoring (or auditing) contribution recipients to ensure that funds have been used for the purposes intended. Detective controls may also be thought of as

monitoring controls in the sense that they operate above or outside of routine processes or activities and their preventive controls.

The internal auditor who has gained an understanding of the audit entity's objectives and control environment and has identified the key risks to the achievement of objectives is in a position to identify and assess the related controls and their likely effectiveness in mitigating risks. In essence, the internal auditor will document the process or activity for which the control is intended; evaluate the expected effectiveness, efficiency, and cost-effectiveness of the control; and test whether it is working as intended. In testing controls, the internal auditor will pay particular attention to the extent to which it might be possible to rely upon detective, or monitoring, controls because these may reduce the necessity for extensive testing of preventive controls. For example, a manager may have established a quality review team to review a sample of files or transactions on a regular basis. If this activity is reliable as a control, it may eliminate the necessity for the internal auditor to test as many original files or transactions.

3.6 Determine the Engagement Objectives, Scope, Criteria, and Approach

3.6.1 Audit objectives

IIA Standard 2210 — Engagement Objectives — Objectives should be established for each engagement.

IIA Standard 2210.A1 — Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment.

IIA Standard 2210.A2 — The internal auditor should consider the probability of significant errors, irregularities, noncompliance, and other exposures when developing the engagement objectives.

Once the understanding of the audit entity has been acquired and the assessment of risks has been completed, including any limited testing of controls, the internal auditor is in a position to recommend the specific objectives and scope for the engagement.

An engagement objective is a broad statement that is often thought of as a question that the internal auditor seeks to answer. Engagement objectives should be carefully considered and clearly stated. They must be stated in such a way that the internal auditor will be able to draw a conclusion with respect to each of the objectives.

Engagement objectives may be focussed on key generic internal auditing outcomes, e.g. assurance on risk management, on controls, or on information for decision making, or may be focussed on specific high-risk issues or concerns identified during engagement planning.

3.6.2 Audit scope

IIA Standard 2220 — Engagement Scope — The established scope should be sufficient to satisfy the objectives of the engagement.

IIA Standard 2220.A1 — The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

The scope statement should clearly describe the areas, processes, activities, or systems within the audit entity that will be the subject of the engagement and to which the conclusions will apply. If there are numerical or geographic limitations to the scope of the engagement, these should be specified, e.g. “Tests will be conducted on a random sample of transaction files at each of a representative sample of ten local offices.”

The scope may be expressed in terms of the focus of the engagement, e.g. compliance, controls, governance processes, information, and risk.

The scope should describe the time period covered by the audit, for example, the period or fiscal year during which files or transactions to be examined were originally prepared.

The audit scope should also describe any areas, processes, activities, or systems that might normally be associated with the audit entity but are excluded.

It should be evident in the scope how conducting the engagement as stated will lead to the formulation of conclusions appropriate to the engagement objectives.

3.6.3 Audit criteria

Audit criteria are reasonable and attainable standards of performance and control against which compliance; the adequacy of systems and practices; and the economy, efficiency, and cost-effectiveness of operations can be evaluated and assessed. Audit criteria provide a basis for developing audit observations and formulating conclusions.

Criteria suitable for audit purposes must be appropriate to the nature of the engagement and to the audit entity. The failure to identify criteria suitable to the engagement may result in inappropriate or highly contested conclusions being drawn by the internal auditor.

Following are criteria against which good audit criteria statements should be judged:

- ▶ **Relevance** Criteria are relevant when they are appropriate to the audit entity and its environment and can form a reasonable basis for findings and conclusions that meet the objectives of the audit.
- ▶ **Reliability** Criteria are reliable when different auditors in the same circumstances would interpret them in the same way, thereby increasing the reliance that can be placed on conclusions and opinions.
- ▶ **Neutrality** Criteria are neutral when they are free from bias, i.e. they are widely accepted and do not advance one position at the expense of commonly held opposing views.
- ▶ **Completeness** A set of criteria is complete when all elements that could affect a conclusion are taken into consideration.

Although there is a wide variety of potential sources for audit criteria — professional associations’ standards, generally recognized industry norms, accepted good practices, and the auditee’s standards — the internal auditor in the federal government can usually rely upon acts and regulations, policies, guidelines or standards, and recognized experts.

A checklist for reviewing audit objectives and criteria statements in Appendix G provides a list of factors that should be considered when reviewing and assessing whether proposed engagement objectives and criteria are as meaningful and effective as possible. This checklist should be useful to both the internal auditor who is preparing the statements and the senior internal audit group member who is reviewing or approving them. The checklist may be used to foster discussion or may be structured as part of the formal supervisory review process. If it is to be included as part of the formal supervisory review or management approval processes, a provision may be made in the checklist for reference to working papers (see section 4.5).

The internal auditor should review and discuss the audit criteria selected with the auditee. As well, the auditee should acknowledge that the criteria are suitable for the engagement, particularly when there are no generally accepted criteria. If agreement on the audit criteria can not be reached, this should be reflected in the planning documentation, with an explanation as to why the internal auditor believes the criteria remain appropriate. If necessary to the successful completion of the audit, approval of the criteria by the audit committee should be sought.

3.6.4 Audit approach and methodology

Once the engagement objectives, scope, and criteria have been clearly established, the internal auditor needs to design an approach to carrying out the engagement that will provide the most meaningful result for the auditee in the most cost-effective manner.

The purpose of articulating the audit approach is to ensure that sufficient, appropriate audit evidence is collected to enable the internal auditor to draw a conclusion with respect to each of the engagement objectives.

Using professional judgment, the internal auditor develops the approach and methodology based on the nature and extent of evidence needed to reach a conclusion and the most appropriate and cost-effective mix of audit tests and procedures to gather that evidence.

An effective approach will normally incorporate a variety of auditing tools and techniques. Different tools and techniques have various strengths and weaknesses. For example, one may require a high degree of technical skill while another a high degree of interpersonal skill; one may be expensive but reliable, another inexpensive but less reliable.

Some common methods of creating or gathering audit evidence include the following:

Interviews

Interviewing is a frequently used technique to gather evidence and opinions. Interviews can help to define the issues, furnish evidence to support audit findings, and clarify positions between internal auditors and auditees on engagement findings and observations. Interviews can also be used to solicit the opinions and experiences of stakeholders or recipients of the auditee's products or services. Adequate preparation and good skills are needed to use interviews effectively in building or confirming audit evidence.

Audit tests

Testing implies placing selected activities or transactions on trial to reveal inherent qualities or characteristics.

Audit tests are developed and conducted for either compliance or substantive verification purposes.

Compliance-oriented tests are designed to assess the adequacy and effectiveness of controls, e.g. if a transaction exceeding a set limit is submitted into a system or process, will it be pulled out for special consideration or, if a funded project has a risk score warranting a special monitoring plan, will it be implemented?

Substantive test procedures include the detailed examination of selected transactions, e.g. a sample of pay transactions could be reviewed against collective agreements to ensure correct processing, or a sample of contribution files could be examined to ensure terms and conditions have been respected.

In practice, many tests are dual-purpose tests. For instance, verifying calculations may show that an internal control checking function is being properly executed (compliance) and may provide assurance as to the accuracy of the amount recorded in the books (substantive).

Many tests may include the re-performance or mathematical checking of source documents and other records.

Once the appropriate test has been selected, it is important to determine how it will be applied. It can be applied either as a specific item test or a representative item test:

- ▶ In a specific item (or “judgmental”) test, individual items are selected for examination because of their size or other characteristic and reliable conclusions can only be drawn relative to the items tested.
- ▶ In a representative item test, the objective is to examine a random selection of items, usually accomplished through statistical sampling techniques, to support the formulation of conclusions with respect to the entire population based on the sample examined.

Surveys

Surveys are structured approaches to gathering information on a defined set of common factors from a large population. Surveys might be used to obtain input from all the members of the auditee on the perceived opportunities for training and development or from recipients of services (either internal or external) of the auditee on the quality and timeliness of services provided. The key element in any survey is the existence of a structured, tested questionnaire, regardless of whether the survey is administered in person, by telephone, on the Internet, or by mail.

Inspection

Inspection consists of confirming the existence or status of records, documents, or physical assets. Inspection of physical assets provides highly reliable evidence of their existence or condition. Inspection of records could confirm the existence of source documents for data entry, e.g. participant questionnaires or evaluations.

Flow charts

Flow charts are a graphic representation of a process or system and provide a means for analyzing complex operations, e.g. key control points, redundant activities. A system flow chart would provide an overall view of the inputs, processes, and outputs while a document flow chart would depict value adding activities and critical controls.

Observation

Observation entails looking at a process or procedure being conducted by auditee staff. Many service transactions and internal control routines can only be evaluated by seeing the auditee perform.

Whenever possible, two or more auditors should be present to make observations in order to provide additional support to the observations.

Confirmation

Confirmation involves a request, usually provided in writing, seeking corroboration of information obtained from the auditee's records or other less-reliable sources, e.g. anecdotal information from a client of the auditee.

Analysis

Analysis consists of examining information obtained and using it to corroborate other findings or to compare auditee performance against performance indicators and policies, past operations, similar operations in other organizations, and legislation.

3.7 Estimate Resource Requirements and Preferred Timing

IIA Standard 2230 — Engagement Resource Allocation — Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

Once the audit objectives, scope, criteria, and proposed approach have been determined for the engagement, the resources required to carry out the audit work must be estimated. Resource requirements are usually measured in terms of knowledge and skill, budgetary, and time requirements.

The knowledge and skills required to perform the engagement should be estimated based on the subject matter and the work to be performed. For routine audit engagements, knowledge and skill requirements can usually be formulated in terms of typical auditor levels, e.g. junior, senior, manager, and subject matter background, e.g. grant and contribution programs, accounting, systems. For extraordinary engagements, it may be necessary to specify a required level of expertise and provide an indication of how that expertise might be obtained, e.g. in-house through secondment or externally through a contract.

In terms of budgetary requirements for the engagement, it will be necessary to estimate internal auditor time, travel costs, contract expenditures, and any other costs.

The time frame within which the audit must be (or is desired to be) completed should be specified, recognizing that time frames can frequently be compressed or extended depending on the number of resources assigned to the engagement.

Where external contractors are required for the engagement, the internal auditor may be required to prepare a request for proposal (RFP) to invite interested parties to submit bids. Depending on the expected dollar value of the contract to be awarded and the delegation of authorities to and within the department or agency, it may be possible to seek proposals from a short list of invited bidders or it may be necessary to formally post the RFP on MERX (the automated contracting notice board the federal government uses) to allow any possible bidder sufficient time to submit a proposal. It is recommended that the internal auditor contact the contracting specialists if there is any doubt about the required procedures and documentation. Most departments or agencies will have templates to facilitate the RFP and contracting processes.

Appendix H provides a list of important elements to include in a request for proposals. The list is structured in terms of what information bidders need to know in order to prepare a meaningful proposal and what information the internal auditor wants to have bidders provide in order to select the most cost-effective proposal. Appendix I provides a sample of an approach to assessing proposals to demonstrate some of the possible criteria that might be employed and a possible scoring scheme.

3.8 Document the Results of Engagement Planning

IIA Standard 2200 — Engagement Planning — Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing, and resource allocations.

At the end of the planning phase, most internal audit groups will prepare at least one document reflecting the results of engagement planning. Historically, in the practice of internal auditing, these documents may have been called an assignment planning memorandum, a preliminary survey report, or a terms of reference.

Common to these and any other form of document resulting from the planning phase is a desire to demonstrate and communicate the following decisions:

- ▶ the significant audit engagement issues and the reasons for pursuing them further (e.g. the results of the risk assessment);
- ▶ the audit objectives;
- ▶ the audit scope, i.e. the areas, activities, systems, or processes to be examined, as well as the rationale for not pursuing any related ones;
- ▶ the audit criteria against which assessments will be made;
- ▶ the approach or methodology that will be used for the engagement;
- ▶ the process for communicating audit findings;
- ▶ the projected timeline for the engagement; and
- ▶ resource requirements.

Depending on the intended audience for the document (e.g. the internal audit group, the auditee, senior management, contractors) and the desired degree of transparency, some of the above elements may be excluded, e.g. resource requirements, and others may be added, e.g. names of the internal auditors, responsibilities of the auditee.

Once approved (either by the appropriate level in the internal audit group or by the audit committee, if necessary), the document serves as the basis for conducting the engagement. Any subsequent changes should be recorded. A template for an audit engagement plan is presented in Appendix J.

3.9 Ensure the Auditee Understands the Engagement Plan

The internal auditor should review and discuss the document resulting from engagement planning with the auditee and ensure their understanding. In the event the auditee disagrees with the document, it may be necessary to undertake additional planning or it may be necessary to seek audit committee or more senior level management approval if the internal auditor is confident that an appropriate understanding of the audit entity has been acquired and that the risk assessment has revealed areas in need of further examination.

3.10 Develop the Audit Program

IIA Standard 2240 — Engagement Work Program — Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

IIA Standard 2240.A1-1 — Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.

Audit programs document and detail the audit tests and procedures the internal auditor has designed as the approach to collect and analyze audit evidence in the most cost-effective manner while ensuring objectivity, independence, and uniformity. The purpose of the audit program is to provide the following:

- ▶ a guide for conducting and co-ordinating the audit work to be done;
- ▶ a framework for assigning audit work;
- ▶ a framework for effectively supervising work and assessing the cost and the quality of the work performed; and
- ▶ a vehicle to document the exercise of due care and compliance with professional standards and policies.

More generally, the audit program should allow the specification of who is doing what, why it is being done, how it is to be done, when it is to be done, and where it is to be done. At the same time, the audit program should allow for some flexibility for the use of initiative and sound judgment in deviating from prescribed procedures or extending the audit work where warranted. The internal auditor will normally need to seek approval of such changes from a more senior member of the internal audit group.

Once the objectives and scope have been determined, the efficiency and effectiveness of an engagement depend largely on how well the audit program has been designed and executed.

The key component of an effective audit program is the tests and procedures to be followed in gathering and analyzing audit evidence. The tests and procedures should be structured and described so that it is clear to which criterion and to which audit objective each procedure is directly linked. The format should also include a provision for recording cross-references to working papers (see section 4.5).

A template for presenting an audit program is provided in Appendix K. The format may also be used in landscape format on legal size paper to make it easier to use.

A checklist for reviewing an audit program is provided in Appendix L for those internal auditors responsible for reviewing or approving audit programs developed by other internal audit group members. If desired, a column could be added to allow for cross-referencing to working papers.

3.11 Summary of the Engagement Planning Process

At the end of the engagement planning process, the internal auditor should have developed a good understanding of the audit entity; assessed the most significant risks affecting the achievement of the audit entity's objectives; determined and ensured the auditee's understanding of the engagement objectives, scope, criteria, and approach; and developed the program to conduct the engagement. A well-conducted planning process is the most critical element in ensuring that engagements are conducted efficiently and result in added value to the department or agency.

On occasion, the planning phase may result in a recommendation to suspend additional audit activity. This may occur for a number of reasons. For example, it may be found that there is an absence of even basic controls, and the auditee accepts the need for immediate improvement action. In this instance, the internal audit group may recommend, or offer, consulting services to establish the basic elements of a management control framework. In another example, engagement planning may reveal that there are no significant risks that are not apparently well mitigated by established control processes. Limited testing during engagement planning concludes that there is likely little added value to be obtained from proceeding with the audit. As a final example, the engagement planning may reveal that the audit entity is not auditable, for example, due to a lack of suitable criteria, documentation, or reliable sources of evidence, such as key personnel.

In these circumstances, the internal auditor should prepare a recommendation for the head of the internal audit group to defer or cancel the engagement or to revisit the objectives so that the necessary senior management approval may be obtained administratively or through a formal recommendation to the audit committee.

To assist internal auditors in ensuring all appropriate steps in the planning phase are completed, a sample engagement planning checklist is provided in Appendix M. The checklist provides a column to allow for recording a reference to working papers (see section 4.5).

4.0 Conducting the Engagement

4.1 Overview

IIA Standard 1220 — Due Professional Care — Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

IIA Standard 2300 — Performing the Engagement — Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement’s objectives.

The purpose of conducting the engagement is to gather sufficient, appropriate audit evidence to reach a conclusion on each of the objectives identified in the planning phase of the engagement.

4.2 Hold Initial Meeting with Auditee

Fieldwork is generally regarded as the beginning of the conduct phase and is interpreted as the point at which the internal auditor is implementing the audit program, usually on site with the auditee.

Normally, on the first day of fieldwork, an initial meeting will be held with the manager and supervisors directly responsible for the program, activity, or organization being audited. Where feasible, a senior manager from the internal audit group should attend the meeting, especially if the meeting includes executive heads responsible for the program, activity, or organization being audited.

Items to be discussed at the entrance meeting include the following:

- ▶ introductions — members of the internal audit group and their areas of responsibility as well as key auditee staff and their areas of responsibility;
- ▶ the audit objectives and scope, including any limitations or exclusions;
- ▶ the audit process — the approach or methodology to be followed, the schedule, and the locations to be included;
- ▶ the expectations that the internal auditor has for auditee co-operation and involvement and those that the auditee has in terms of professional conduct and respect of the audit entity’s environment;
- ▶ debriefing and reporting on activities and products.

The initial meeting should not normally be the forum for soliciting management concerns — these should have been identified during the engagement planning. On occasion, however, the auditee may have identified a concern to which special attention should be given subsequent to the planning phase or may have a request that some aspect be de-emphasized. If the request can

not be readily accommodated within the program, the internal auditor will have to assess the impact of the request on the engagement and resolve the situation, in consultation with more senior members of the internal audit group, as required.

After the initial meeting, internal auditors may meet individually with the supervisor responsible for the activity, organization, or program that they have been assigned. This meeting can be used to gain an understanding of how the supervisor's responsibilities are carried out, to obtain access to required documentation, and to meet other staff.

4.3 Complete the Audit Program

Once the initial meeting has been held, the internal auditor carries out the assigned parts of the audit program. As activities are completed, there will normally be ongoing processes of analyzing and evaluating evidence generated by completing portions of the audit program and formulating, discussing, presenting, and refining observations and findings.

The following section provides guidance on audit evidence and on developing audit findings based on it.

4.3.1 Collect and analyze audit evidence

IIA Standard 2310 — Identifying Information — Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives

IIA Standard 2320 — Analysis and Evaluation — Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

Policy on Internal Audit — Internal Auditing Standards for the government of Canada (Appendix B) — sufficient appropriate evidence that supports the findings and conclusions.

Audit evidence is the information collected, analyzed, and evaluated by the internal auditor to support an audit finding or conclusion. The decisions on which type of evidence to seek and on how much evidence is enough require professional judgment. To support the exercise of that judgment, knowledge of the concepts underlying evidence is necessary.

4.3.2 Attributes of audit evidence

The following information, drawn from the IIA *Practice Advisory 2310-1: Identifying Information* and Sawyer, *Sawyer's Internal Auditing 1996*, provides further insight into the necessary attributes of audit evidence:

Sufficiency

This is the measure of the quantity of evidence required to reach a conclusion. Internal auditors should collect and evaluate enough acceptable evidence so that, collectively, the evidence will be sufficiently persuasive to permit the internal auditor to draw valid conclusions. Evidence is considered to be sufficient if a reasonably informed unbiased person would agree with the auditor's findings and conclusions.

When considering the sufficiency of evidence, the following factors should be considered:

- ▶ the internal auditor is seeking reasonable, but not absolute, conclusions (i.e. evidence does not have to prove the position beyond any question, but it must clearly and convincingly outweigh opposing evidence);
- ▶ incomplete data may result in the inability to reach reasonable conclusions (e.g. documents may be lost or deliberately concealed, or the auditee may be unaware of the existence of key documents);
- ▶ examination of extensive evidence may be uneconomical, inefficient, and ineffective (i.e. since the weight of individual pieces of evidence determines their collective quality, a few items of highly weighted evidence may be more persuasive than many items of less convincing evidence); and
- ▶ evidence shall be reasonably representative of the population being reviewed or addressed (i.e. the selection of items for examination should be the result of objective, acceptable sampling methods).

Reliability

Evidence must be obtained from a reliable source using appropriate techniques. When considering the reliability of evidence, the following factors should be considered:

- ▶ evidence obtained from a credible independent source provides greater assurance of reliability than evidence secured from the auditee;
- ▶ evidence obtained by internal auditors through physical examination, observation, computation, and inspection is more reliable than evidence obtained indirectly;
- ▶ documentary evidence is usually considered more reliable than oral evidence;
- ▶ reliability of evidence increases when it is confirmed by another source; and
- ▶ statements made by auditee management are more reliable when they are confirmed in writing.

Relevance

Relevance relates to the pertinence of the evidence. To be relevant, evidence shall have a logical relationship to what it purports to prove. To be relevant, evidence used to support a finding must have a logical, sensible relationship to that finding.

4.3.3 Types and sufficiency of audit evidence

Evidence used to support audit conclusions may be categorized into different types. The following types of evidence are drawn from Sawyer, *Sawyer's Internal Auditing, 1996*:

Physical — consists of the internal auditor's direct observation and inspection (e.g. inventory verification or photographs). It is obtained by observing people, property, and events.

Testimonial — is provided in statements of auditee personnel and others. Examples of testimonial evidence include letters in response to enquiries and interview notes. If possible, testimonial evidence should be supported by documentary evidence.

Documentary — is that which exists in some permanent form, such as records, purchase orders, invoices, memoranda, and procedure manuals.

Analytical — stems from analysis, verification, and assessment of compliance-non-compliance, consistency-inconsistency, or cause-effect relationships. The sources of such evidence are internal auditor computations, comparisons with prescribed standards, past operations, similar operations, laws or regulations, and reasoning.

A single type of evidence is less persuasive than if several types of corroborating evidence are obtained. In general, a greater degree of credibility exists when different types of evidence are obtained from different sources. Determining when it is necessary to gather corroborating evidence from different sources or of a different nature is a matter of professional judgment. Factors that may be taken into consideration when deciding whether or not to seek additional evidence include the following:

- ▶ Is there a high degree of consistency among the evidence already collected (i.e. the lack of contradictory evidence)? If so, the need for additional evidence is decreased; if not, the need is increased.
- ▶ Is there a high degree of risk, significance, or sensitivity associated with the matter to be reported? If so, additional evidence may reinforce the internal auditor's conclusion; if not, existing evidence may be sufficient to gain acceptance of the conclusion.

- ▶ Is the cost of obtaining additional evidence worth the benefits to be obtained in terms of supporting the finding? If not, don't; if so, proceed.

4.3.4 Documentation of audit evidence

Because the results of several audit tests will be summarized to form a conclusion with respect to one or more criteria or objectives, the results of each audit test and the evidence gathered should be documented to ensure that the following information is evident:

- ▶ the engagement objective and criterion to which the test is linked;
- ▶ the sources of information used to design the test;
- ▶ the means by which the test was conducted;
- ▶ the test results and their analysis; and
- ▶ the conclusions drawn and the recommendations made.

4.4 Document Audit Findings

Audit observations and findings emerge through a process of comparing “what should be” (the audit criteria) with “what is” (the audit evidence). When there is a difference between “what is” and “what should be,” an assessment of the impact and the effect associated with the variance should be completed and documented as an observation and finding. Where there is no difference found, there may be the basis for a positive observation, depending on the strength or uniqueness of the practice (e.g. a best practice). The accumulation of observations and findings provides the internal auditor with the necessary foundation on which to develop the audit report.

Most internal audit organizations have some sort of preferred structure or format for presenting internal audit observations and findings. While these can take many forms, the following elements are generally recognized as the main elements of well-developed internal audit observations and findings:

Audit objective — *To which audit objective does this finding relate?*

Audit criterion — *What should be?* The standard or benchmark that was identified as the basis against which audit evidence would be compared.

Observation or finding — *What is?* The factual evidence found in the course of the audit.

Cause — *Why did this happen?* The possible or likely reason for the difference between the standard or benchmark and the “what is.” The cause may be obvious or may be identified by deductive reasoning. The identification of similar causes for a number of findings may highlight an underlying theme to which an audit recommendation should be addressed.

Effect — *So what?* The risk or exposure to the organization as a result of the difference between “what should be” and “what is.” The effect establishes the actual or potential significance of what was found. It can be expressed in quantitative terms (e.g. dollars wasted, personnel hours lost, deadlines missed) or qualitative terms (e.g. lack of control, poor reputation with clients). To warrant reporting, an effect should be sufficiently serious to justify the action (and related cost) to correct the deficiency (the difference).

Recommendation — *What should be done?* The actions suggested or required to correct the situation and prevent future occurrences. There should be a clear and logical relationship between the recommendation and the underlying cause of the deficiency.

Management response — *What will be done?* The auditee’s response to the audit observation and finding and their action plan to address the recommendation.

The audit observation structure can be used to present positive findings as well as opportunities for improvement although it may be unnecessary to elaborate on some elements, e.g. the cause or the effects.

A sample audit observation worksheet is provided in Appendix N to illustrate the key elements that would normally be captured in constructing an audit observation. If desired, references to supporting documentation can be included.

Normally, a more senior member of the internal audit group will need to review and approve audit observation worksheets prepared by the internal auditor. Appendix O provides a checklist for reviewing audit observation worksheets and supporting evidence. If desired, a column could be added to provide for referencing supporting documentation.

In many internal audit groups, regular meetings (usually referred to as “team-backs”) of the entire audit team are held during fieldwork to share observations and identify themes or larger issues.

It is usually through the review process and through team-backs that the quality and relevance of recommendations are ensured. Well-developed recommendations enable the internal auditor to provide the auditee with effective advice on how to address significant problems so they do not reoccur. It may become apparent through review and team-backs that one strong recommendation may address a number of observations.

In developing sound recommendations, the internal auditor should ensure that the recommended action is within the scope of the auditee, addresses the cause and not just the symptoms, and is at least intuitively viable. Caution must be exercised to not tell the auditee specifically what to do or how to do it (because this may compromise subsequent internal audit activity and independence) and to not direct recommendations to parties outside the audit entity (as there may be no process to direct the recommendation to them and they will have had no say in the internal auditing process).

As with any step in the engagement process, the relevance of the work, and the eventual acceptance of observations and recommendations, will be strengthened if the auditee is involved on an ongoing basis. Many audit groups make it a practice to share observations and findings with the auditee as soon as they are developed. In that way, they can gain additional information and insight and engage the auditee in a discussion of possible options to address the observations.

4.5 Prepare Working Papers

IIA Standard 2330 — Recording Information — Internal auditors should record relevant information to support the conclusions and engagement results.

Working papers are the supporting documentation for the entire engagement. Working papers provide a complete audit trail and demonstrate, in detail, how the engagement was performed. They contain the evidence to support the report and any related products, such as management letters that are frequently used to report matters outside the scope of the engagement or of less significance. More specifically, working papers provide a demonstrable link between reports issued and the works performed; they also support the findings, conclusions, and recommendations. In addition, working papers can be used to

- ▶ justify and provide proof of work conducted;
- ▶ help auditors respond to questions about coverage or results;
- ▶ facilitate supervisory quality assurance reviews; and
- ▶ provide supporting evidence when external auditors or other reviewers want to rely on the results.

A completed set of working papers is normally prepared in the form of either paper or computer files; however, the set may be later stored in the form of tapes, diskettes, films, or other media. The organization, design, and content of a set of internal audit working papers will depend on the nature of the engagement; however, the set should document all aspects of the engagement process, including all meetings and discussions with the auditee, and should be consistently and efficiently prepared to facilitate review and control.

A completed set of working papers should be neat and uniform in size and appearance and include the following:

- ▶ an index;
- ▶ a legend of the symbols and abbreviations used;
- ▶ a statement of the purpose of the working papers;
- ▶ evidence of the application of the audit program; and
- ▶ the results of the engagement, e.g. debriefings, reports, action plans.

Within the set of working papers, each page should include a descriptive heading (e.g. “Interview,” “Summary,” “Test Result,” “Document Examined”), the internal auditor’s name or initials, the dates of preparation, appropriate cross-references, and evidence of supervisory review and comments.

Each engagement working paper file should have an indexing system so that future users can easily consult the information it contains. Although there is no set format for the indexing system, common practice is an alphanumeric system whereby alpha identifies the section within the working paper file and numeric identifies the items within a section.

As previously noted, working papers should be properly cross-referenced. Cross-references should stand out clearly and provide direct and prompt access to information so that a reviewer can trace conclusions back to the original audit tests and the evidence gathered and vice versa. Cross-referencing of documents should follow the system established for the working paper file index. The extent of cross-referencing required may vary depending on the engagement; good practice indicates, however, that, at a minimum, the following items should be cross-referenced:

- ▶ specific items in the engagement report to the pertinent audit observation worksheet;
- ▶ audit observation worksheets to the supporting evidence;
- ▶ evidence that relates to other evidence; and
- ▶ audit program steps to the supporting evidence.

Each engagement working paper should be reviewed to ensure that all information contained is relevant and supports the report and that all necessary auditing procedures have been performed.

The reviewer should initial and date each working paper after it has been reviewed to provide evidence of supervisory review (i.e. review of the working papers by at least one more senior member of the internal audit group or by the audit manager for engagements that have been contracted out).

Some internal audit groups employ additional review techniques, such as completing an audit working paper review checklist or placing on file a memorandum specifying the nature, extent, and results of the review. A checklist for reviewing working papers is provided in Appendix P.

Working papers are formal records belonging to the originating department or agency, and their retention should follow the department or agency's records retention policy.

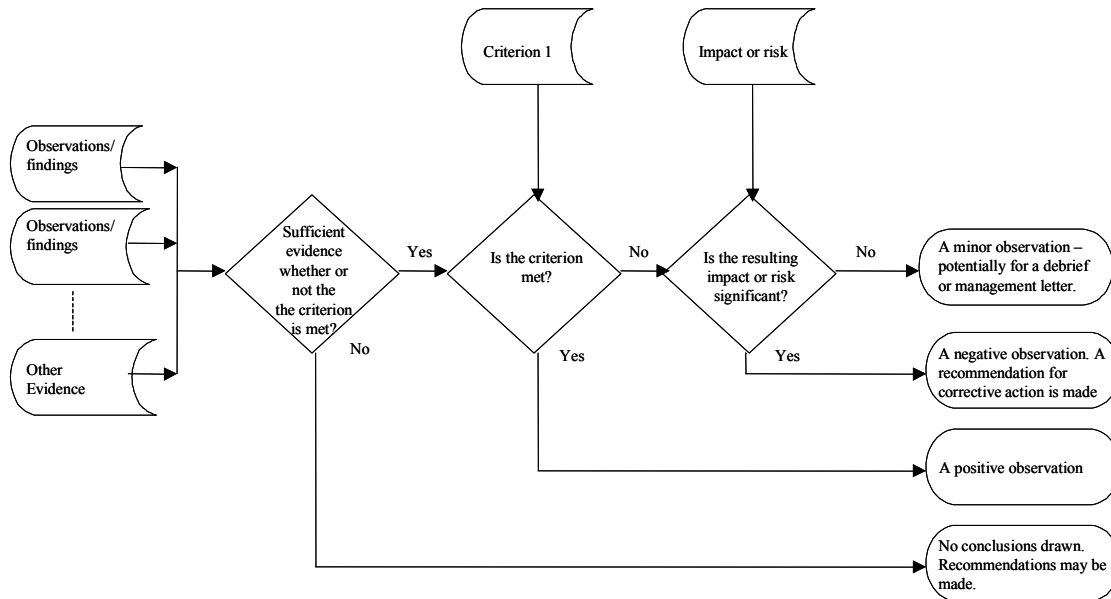
4.6 Reach Conclusions

IIA Standard 2410.A1 — Final communication of engagement results should, where appropriate, contain the internal auditor's overall opinion or conclusions.

At the end of fieldwork, the internal auditor reaches conclusions based on the evidence gathered and the individual audit observations and findings identified. In order to answer the question of whether each objective is positively satisfied, the internal auditor first must assess whether each of the related audit criteria has been met.

In assessing each criterion, the internal auditor should consider the observations and findings and any additional audit evidence related to that criterion.

The decision-making process in assessing an audit criterion

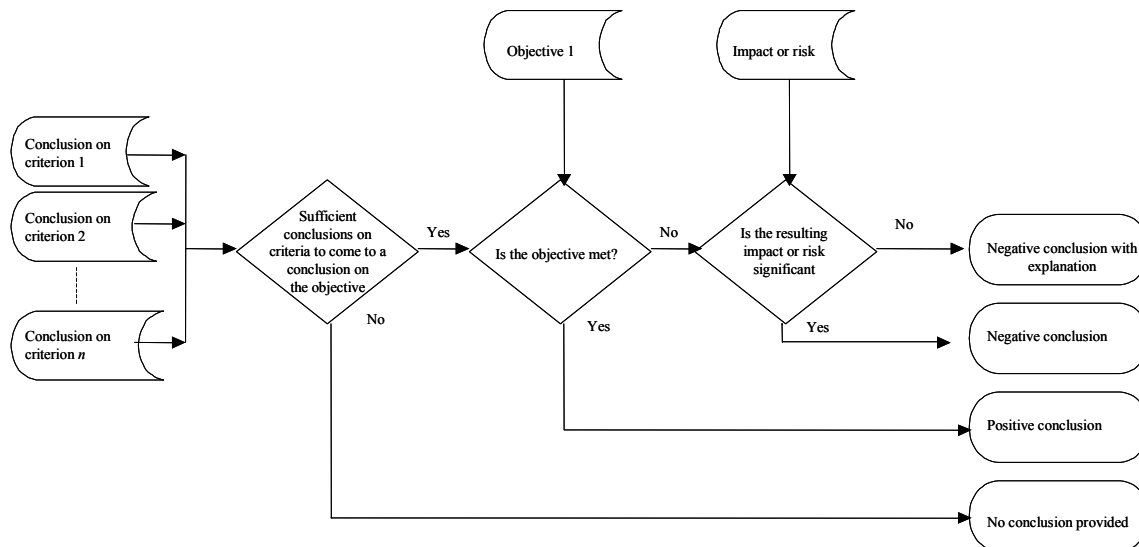


Assessing audit criteria allows the internal auditor to draw conclusions with respect to the engagement objectives. As there may be a number of audit criteria for each audit objective, the internal auditor must consider the extent to which each audit criterion has been satisfied and the effect of those audit criteria that were not met in relation to the other criteria and the objective. If the criteria not met are more significant than those met, it is likely that a negative conclusion with respect to the objective will be required, with qualification as appropriate. If the majority of criteria are met, and those not met are of lesser significance, it should be possible to prepare a positive conclusion with respect to the objective (or a positive conclusion with qualifications). If there is a mixture of some criteria met and others not, it may be necessary to report that no conclusion can be drawn.

While individual internal audit groups may have preferred variations for their conclusions, there are generally three possible outcomes:

1. a positive conclusion in all significant respects or with qualification (e.g. most significant areas or activities are fine, but some are not);
2. no conclusion — the auditors could not obtain sufficient evidence to conclude on many of the audit criteria; or
3. a negative conclusion — significant or most areas are not fine.

The decision-making process in coming to a conclusion on an audit objective



The outcome of an assurance engagement normally includes conclusions against each of the objectives. Frequently, a summative conclusion is offered as well.

An internal auditor's conclusions are not infallible; there is always a risk that conclusions may be inappropriate. The risk arises from such variables as the appropriateness of the criteria used, the degree of rigour and professionalism in the internal auditing processes employed, and the quality and sufficiency of evidence available for analysis. In reporting conclusions, the internal auditor's assessment of the risk that conclusions might be inappropriate can be reflected in the level of assurance provided. A perceived low degree of risk would be associated with a high level of assurance and vice versa. The level of assurance is normally conveyed in a statement of assurance.

Normally, assurance engagements undertaken by internal auditors are designed to provide a high level of assurance. The statement of assurance should therefore inform the reader that

- ▶ the internal auditor has obtained sufficient and appropriate evidence upon which to base the conclusions; and
- ▶ the engagement was conducted in accordance with the standards for the professional practice of internal auditing.

Where, for any reason, these statements can not be made, the statement of assurance should reflect the limitations and their effect, if any, on the conclusions.

The TBS *Exposure Draft: Statement of Assurance* provides examples of statements of assurance that can assist internal auditors in drafting their conclusion. This Exposure Draft can be accessed at http://www.tbs-sct.gc.ca/ia-vi/policies-politiques/exposure-expose/exposure-expose_e.asp.

To serve as a summary of the key elements in conducting the audit engagement, i.e. up to the formal reporting stage, a checklist for conducting the engagement is provided in Appendix Q. It is understood that the completion of each of these elements is subject to the appropriate level of supervisory review. More information on supervisory review and its place in quality assurance is provided in section 7.0.

5.0 Reporting the Results of the Engagement

5.1 Overview

IIA Standard 2400 — Communicating Results — Internal auditors should communicate the engagement results.

IIA Standard 2410 — Criteria for Communicating — Communications should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

IIA Standard 2410.A2 — Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

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

IIA Standard 2430 — Engagement Disclosure of Noncompliance with the *Standards* — When noncompliance with the *Standards* impacts a specific engagement, communication of the results should disclose the:

- ▶ *standard(s)* with which full compliance was not achieved,
- ▶ reason(s) for noncompliance, and
- ▶ impact of noncompliance on the engagement.

IIA Standard 2440 — Disseminating Results — The chief audit executive should communicate results to the appropriate parties.

As outlined in the *Policy on Internal Audit*, the objective of internal audit is “to provide departmental management with objective assessments about the design and operation of management practices, control systems, and information”¹¹ In order to accomplish this objective, internal audit must effectively communicate the engagement conclusions and recommendations.

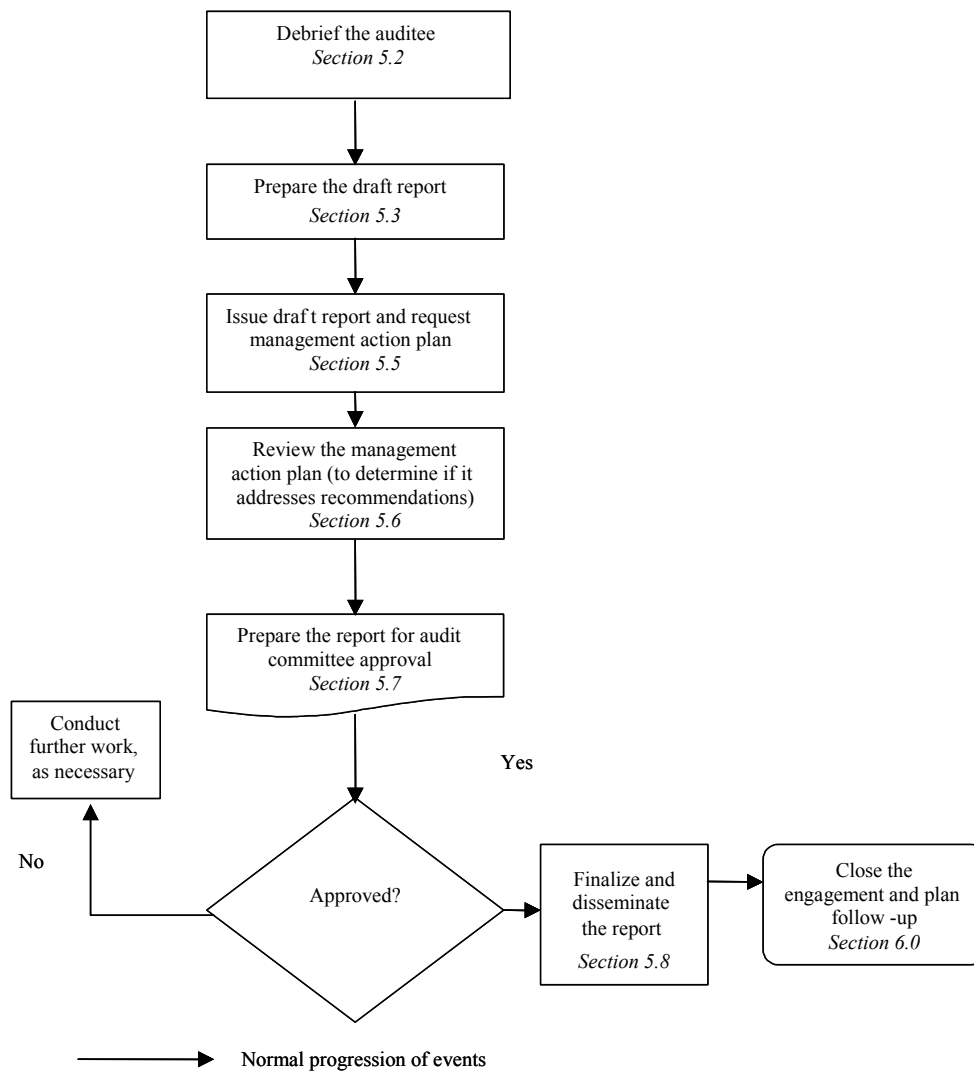
Throughout the engagement, the internal auditor has discussions with the auditee to review and discuss observations and findings and potential recommendations. This helps ensure that all pertinent information has been considered in developing conclusions and provides an opportunity for the internal auditor and auditee to work to develop effective solutions to identified deficiencies. At the end of the engagement, this informal communication process is formalized through closing or exit meetings and written reports.

¹¹ Policy on Internal Audit, section 3

The reporting phase of the engagement includes debriefing the auditee, drafting the report, issuing initial and subsequent drafts, reviewing management action plans, preparing the report for the audit committee, and distributing the final audit report.

The following flow chart provides an overview of the reporting phase of the engagement as designed to ensure compliance with the *Policy on Internal Audit* and the related IIA Standards. The internal auditor may not need to complete each step of this process for every engagement.

Reporting Phase Flow Chart



5.2 Debrief the Auditee

The internal auditor should formally discuss all significant engagement findings and conclusions with auditee management before the report is drafted. This formal debriefing helps ensure that

- ▶ there are no surprises with respect to reporting results;
- ▶ there have been no misunderstandings or misinterpretations of fact by providing the opportunity for the auditee to clarify specific items and to express views on the observations and conclusions;
- ▶ the internal auditor is aware of all relevant evidence and any corrective action that has already been taken by the auditee; and
- ▶ there is acceptance of feedback on proposed recommendations.

A debriefing meeting may also be used to discuss points that are of interest but are not significant enough for the written audit report. These findings of lesser significance may be addressed in a management letter to the auditee.

Normally, the head of the entity being audited (e.g. the director general level) will be expected to attend the formal debriefing. In some organizations or on some occasions, e.g. a particularly sensitive audit, a more senior official with responsibility for the audit entity, e.g. an associate deputy head, may also expect to attend the formal debriefing. In such cases, the head of the internal audit group would also normally attend.

5.3 Prepare the Draft Report

The written report is the most tangible output of the internal auditing process. Its primary purpose is to communicate. The messages must be clear and precise to ensure that the reader will understand what the report is trying to achieve. The report should be fair and balanced and presented in an unbiased tone, noting where management has taken actions to correct deficiencies and recognizing exemplary performance.

Only matters of significance should be included in the report. Therefore, not all observations and recommendations recorded during the conduct of the engagement will be brought forward to the report. Reports are generally more effective when related observations can be aggregated and addressed with higher level recommendations, e.g. to improve controls.

The *Policy on Internal Audit* states that deputy heads are responsible for ensuring that departmental internal audit reports

-
- ▶ are written so that management can readily focus on and understand the important issues being reported;
 - ▶ are clear and concise by including only information that is needed for a proper understanding of the conclusion and any significant problems identified;
 - ▶ identify to whom the recommendations are directed;
 - ▶ provide context by describing the area that has been examined, how it fits into the overall operations of the organization, and its importance;
 - ▶ describe the objective(s), scope, and timing of the engagement;
 - ▶ identify the criteria used;
 - ▶ describe compliance with relevant laws, regulations, policies, and standards;
 - ▶ provide relevant analysis and explanations of the exposure to risks for any significant problems and key recommendations;
 - ▶ state a conclusion for an audit engagement that conveys a clear understanding of what is being assessed, the criteria assessed, the level of assurance provided, and any reservations; and
 - ▶ integrate a management action plan that clearly identifies, for each recommendation, the actions to be taken and their timing.¹²

While each internal audit group will most likely adopt its own standard report structure, following is one outline that demonstrates the key elements that should be found in most engagement reports.

Outline for engagement reports

Executive Summary

(May not be required when reports can be kept short)

The executive summary should reiterate the objectives and scope of the engagement and include brief descriptions of the audit entity, the rationale for the audit, and the criteria and approach employed, including references to professional standards. A conclusion is required for each objective, and a summative conclusion may be provided. A statement of assurance should be included or referenced, if it is located in the conclusions section or provided in a covering memorandum. Key recommendations and management responses may also be included. Above all, management should be able to readily focus on and understand the important issues being reported.

¹² *Policy on Internal Audit*, Appendix B

Objective

- ▶ Reason for the engagement and the specific objectives

Scope

- ▶ Context of the subject matter (e.g. a description of the program, activity, issue, organization, or system examined, its place within the department or agency, and its importance or a description of exclusions)
- ▶ Timing (the period covered by the evidence examined)

Approach or methodology

- ▶ Criteria (against which the observations and assessments were made and conclusions were drawn)
- ▶ Work conducted
- ▶ Standards used (any professional standards, e.g. IIA, governing how the work was done)¹³
- ▶ Timing (the period during which the work was done)

Conclusions

- ▶ Conclusions on objectives and any qualifications
- ▶ Compliance with relevant laws, regulations, policies, and standards
- ▶ A summative conclusion may be desirable
- ▶ A statement of assurance may be included or may be referenced if it is addressed in a covering memorandum
- ▶ Other higher level results relative to engagement objectives

Observations and recommendations

For each area of observation:

- ▶ (A topic sentence may be employed to introduce the essence of the observation)
- ▶ Condition
- ▶ Criteria
- ▶ Cause

¹³ IIA Standard 1330 states “Internal auditors are encouraged to report that their activities are ‘conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.’ However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the *Standards*.”

-
- ▶ Impact and exposure to risk
 - ▶ Recommendation (action required and responsibility)

Management action plan

- ▶ Action to be taken for each recommendation
- ▶ Timing

A checklist for reviewing audit reports is provided in Appendix R. This checklist can be used either by the internal auditor drafting a report or by a more senior member of the internal audit group responsible for reviewing the audit report.

5.4 Discuss with Auditee

Once the first draft has been completed, many internal audit groups share a copy with the auditee so that they may review it to correct possible errors, misinterpretations, or omissions. It may be desirable to have more context provided. If observations and recommendations have been shared with the auditee throughout the audit, this process should flow relatively smoothly.

In the event, however, that there are significant disagreements that can not be resolved by the internal auditor sharing findings and evidence with the auditee and by considering the auditee's perspective, the internal auditor will need to be prepared to seek resolution at more senior levels.

This would normally involve discussions within the internal audit group to ensure that other internal auditors would draw the same conclusion and would formulate the same recommendations based on the evidence collected and analyzed.

In some cases, a decision may be made to seek additional evidence, and this would be communicated to the auditee. In other cases, it may be determined that evidence is sufficient and the conclusions are appropriate; the issues would then be discussed with a more senior level of management responsible for the auditee, e.g. at the deputy head level. If the issues can not be resolved through this means, the head of the internal audit group must be prepared to issue the report, request the management response, and then table the report with the audit committee for approval.

5.5 Issue Draft Report and Request Management Action Plan

Once the auditee has had the opportunity to suggest corrections, the audit report is then issued with a request for formal response and inclusion of a management action plan. Although there are no set time frames for the auditee to review versions of the draft report, auditee management should be given reasonable and sufficient time to properly review the report and provide a formal response and action plan, bearing in mind the desirability of finalizing the report in a timely

fashion. If observations and recommendations have been discussed throughout the process, the auditee may be well advanced in developing an action plan before the formal draft report is issued.

5.6 Review the Management Action Plan

Under the *Policy on Internal Auditing*, auditee management is required to develop an action plan to address recommendations made by the internal auditor. Normally, the action plan should indicate where there is

- ▶ agreement with the recommendation and a commitment to undertake corrective action;
- ▶ agreement with the recommendation and an explanation as to why corrective action can not be taken at this time; or
- ▶ disagreement with the recommendation with an explanation.

Although the internal auditor will not normally comment on management responses in the audit report, the action plan is expected to be a key element of the report that goes forward to the audit committee. The internal auditor should review the action plan to determine whether it adequately addresses the recommendations outlined in the report. In particular, the internal auditor will want to ensure that

- ▶ the proposed action will resolve the underlying problem(s) and will produce concrete results at a reasonable cost;
- ▶ the audit entity has the capacity and authority to complete the actions; and
- ▶ it is clear who is responsible for doing what and within what time frame.

The review of the action plan will also help the internal auditor determine the most appropriate follow-up action, e.g. regular status reports or scheduled on-site verification.

If the internal auditor is not satisfied with the response or the action plan, a meeting should be scheduled with the auditee to present the internal auditor's concerns and to suggest means by which the action plan might be improved. In the event that direct discussion with the auditee does not lead to a more acceptable plan, the internal auditor may choose to raise the issue with more senior management or may wish to express his or her concerns when the report is presented to the audit committee, as long as the intention to do so has been communicated to the auditee.

5.7 Prepare the Report for Audit Committee Approval

The audit committee is responsible for approving all internal audit reports. To provide the committee with a fair and complete picture, the management action plan should be integrated into the internal audit report. This integration should be done in such a way as to clearly identify,

for each recommendation provided in the report, the action to be taken, the position or person responsible, and the related timing.

In any situation where a management action plan is not forthcoming within a reasonable time, the internal audit report should be presented to the audit committee for timely approval as a completed report without the management action plan.

5.8 Finalize and Make the Report Available

Once the audit committee has approved the internal audit report, there are several steps required to finalize and distribute the report, including the following:

- ▶ translate the report;
- ▶ co-ordinate the communication of the approved report — the department or agency’s communications staff should receive a copy of the approved report in order to develop and execute the necessary communication plan in conjunction with the responsible auditee (e.g. questions and answers, media lines);
- ▶ ensure compliance with the *Access to Information Act* and the *Privacy Act*;
- ▶ forward the report to TBS (in accordance with the *Policy on Internal Audit*, the final report is to be forwarded to TBS in both official languages);
- ▶ post the final report on the Internet — in order to enable the public to easily access final reports, they should be published in both official languages on the department or agency’s Web site.

6.0 Close the Engagement and Plan Follow-up

6.1 Overview

Once the audit report is finalized and issued, internal audit should effectively close out the engagement and determine the nature of and process for required follow-up activities.

6.2 Summary of Closing-out Activities

The following are some of the key closing-out activities to be performed:

- ▶ finalize and archive working papers;
- ▶ calculate the final cost of the project and complete any resource and schedule reports;
- ▶ complete project performance evaluations for each internal auditor on the engagement and compile lessons learned; and
- ▶ provide input to future department or agency audit plans, e.g. update the audit entity profile or the permanent file, and recommend follow-up activity.

6.3 Follow up on the Engagement

IIA Standard 2500 — Monitoring Progress — The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

IIA Standard 2500.A1.1 — The chief audit executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The internal auditor should establish an effective process for following up on engagements to determine if corrective actions have been taken as detailed in the approved engagement report. This follow-up may take the form of

- ▶ a management self-assessment and reporting process with more in-depth procedures conducted by the internal audit group where warranted; or
- ▶ a follow-up audit conducted by the internal auditor.

A follow-up audit is a timely, systematic process used to provide an assessment of whether the actions committed to and taken by management on the recommendations made by the internal auditor have corrected or will likely correct the problems that led to the audit observations or recommendations. The decision as to whether and when a follow-up audit is warranted will usually be made by the audit committee, either as part of approving the report or as part of approving subsequent risk-based annual and multi-year audit plans.

7.0 Quality Assurance and Continuous Improvement

7.1 Quality Assurance

IIA Standard 1300 — Quality Assurance and Improvement Program — The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organization’s operations and to provide assurance that the internal audit activity is in conformity with the *Standards* and the Code of Ethics.

IIA Standard 1310 — Quality Program Assessments — The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

IIA Standard 1311 — Internal Assessments — Internal assessments should include:

- ▶ ongoing reviews of the performance of the internal audit activity; and
- ▶ periodic reviews performed through self-assessment or by other persons within the organization with knowledge of internal audit practices and the *Standards*.

IIA Standard 1312 — External Assessments — External assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

IIA Standard 2340 — Engagement Supervision — Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

An effective quality assurance and continuous improvement program should guide internal audit groups to achieve quality internal audits that effectively and consistently result in a value-added product for the department or agency’s senior management.

As outlined in section 1.4.3, the first and most important level of quality assurance is the due professional care exercised by the internal auditor and the supervisory review conducted of the internal auditor’s work throughout all phases of the engagement by more senior members of the internal audit group. The supervisory review must encompass the planning, conduct, and reporting phases. To support these reviews, a number of checklists, referenced throughout this guide at the appropriate step for their use, are provided in the appendices.

The sample management review certificate provided in Appendix S is a tool to be employed by the most senior member of the internal audit group responsible for the engagement, e.g. the director, to provide assurance that there has been adequate supervision and management at all points in the engagement. The tool could also be adapted as a requirement that a department or agency might impose on the partner of a consulting firm to which the audit engagement has been contracted out.

The second level of quality assurance performed by many audit shops is an independent internal review to assess the quality and adequacy of the work performed, in accordance with TBS, IIA and department or agency policies and standards. Such a review normally comprises an examination of the working papers and the resultant audit report by a qualified professional who has not participated in conducting the audit (usually by staff of the internal audit group but, in some cases, the audit group may employ contracted resources). Such quality assurance reviews may be performed either prior to reports being finalized or at any time after they have been finalized.

The internal audit group may choose to have all reviews conducted by one or more members working in a dedicated unit on a full-time basis or may choose to rotate responsibilities among all staff on a less formal basis to share the learning experience and benefits. Common to any approach would be the existence of standardized questionnaires or checklists. (A checklist for quality assurance review in Appendix T lists some of the key criteria a quality assurance review should focus on. If desired, such a checklist can be structured to include a reference to working papers.)

Internal quality assurance reviews may also be expanded to include any element of the functioning of the internal audit group, e.g. corporate level planning. These reviews may be conducted once every few years to examine all elements at one time or the elements may be staggered for some coverage every year, e.g. examination of planning processes one year, risk assessment processes the second year, and alignment with organization objectives the third year.

Queries and deficiencies identified during the quality assurance review process should be documented, and an action plan should be developed to address significant deficiencies. (A sample quality assurance review observation worksheet is included in Appendix U as a possible format for recording observations and ensuring follow-up.)

A report is normally provided to the head of the internal audit group at the completion of each quality assurance review. The report indicates the degree of compliance with standards and the level of audit effectiveness (i.e. whether the audit objectives were met) and provides recommendations for improvement.

The third level of quality assurance is intended to comply with the IIA requirement that internal audit groups undergo a formal comprehensive review of effectiveness and compliance with relevant standards every five years. The external quality assurance review addresses all aspects of the work of the internal audit group and is performed by qualified external reviewers who are independent of the internal audit group being reviewed. The IIA has developed a number of standard tools and work instruments, such as questionnaires to gauge senior management perspectives, that can be employed in the external review process.

The IIA also permits a variation on the external quality assurance review that allows for internal review with external validation. As implied, the internal audit group can undertake its own review and have it recognized as meeting the standard, subject to validation by an external reviewer. The IIA should be contacted before embarking on the internal review.

7.2 Auditee Satisfaction

As an additional means to assure the quality and relevance of its products, many internal audit groups obtain feedback from the auditee on the proficiency and effectiveness of work performed. A sample auditee satisfaction survey is provided in Appendix V to illustrate the elements on which feedback might be sought. Use of such a survey would normally be accompanied by a covering letter or memorandum explaining the purpose of the survey and how the information obtained will be used. The covering note would also describe the process for submitting the completed questionnaire.

An auditee survey could also form part of an internal independent quality assurance function and is a recommended element of external quality assurance reviews.

Appendices

Appendix A — International Standards for the Professional Practice of Internal Auditing

Reprinted with permission from the IIA. For updates, visit their Web site at http://www.theiia.org/ecm/guidance.cfm?doc_id=1499.

(These latest additions and amendments to the Standards were issued in December 2003 and became effective January 1, 2004.)

Introduction

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.

Internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, compliance with the International Standards for the Professional Practice of Internal Auditing is essential if the responsibilities of internal auditors are to be met. If internal auditors are prohibited by laws or regulations from complying with certain parts of the Standards, they should comply with all other parts of the Standards and make appropriate disclosures.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the process, system or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The purpose of the *Standards* is to:

1. Delineate basic principles that represent the practice of internal auditing as it should be.
2. Provide a framework for performing and promoting a broad range of value-added internal audit activities.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The Standards consist of Attribute Standards, Performance Standards, and Implementation Standards. The Attribute Standards address the characteristics of organizations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all internal audit services, the Implementation Standards apply to specific types of engagements.

There is one set of Attribute and Performance Standards, however, there are multiple sets of Implementation Standards: a set for each of the major types of internal audit activity. The Implementation Standards have been established for assurance (A) and consulting (C) activities.

The Standards are part of the Professional Practices Framework. The Professional Practices Framework includes the Definition of Internal Auditing, the Code of Ethics, the Standards, and other guidance. Guidance regarding how the Standards might be applied is included in Practice Advisories that are issued by the Professional Issues Committee.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

The development and issuance of the Standards is an ongoing process. The Internal Auditing Standards Board engages in extensive consultation and discussion prior to the issuance of the Standards. This includes worldwide solicitation for public comment through the exposure draft process.

All exposure drafts are posted on The IIA's Web site as well as being distributed to all IIA Affiliates. Suggestions and comments regarding the Standards can be sent to:

The Institute of Internal Auditors
Global Practices Center, Professional Practices Group
247 Maitland Avenue
Altamonte Springs, FL 32701-4201, USA
E-mail: standards@theiia.org
Web: <http://www.theiia.org/>

Attribute Standards

1000 — Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the *Standards*, and approved by the board.

1000.A1 — The nature of assurance services provided to the organization should be defined in the audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances should also be defined in the charter.

1000.C1 — The nature of consulting services should be defined in the audit charter.

1100 — Independence and Objectivity

The internal audit activity should be independent, and internal auditors should be objective in performing their work.

1110 — Organizational Independence

The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

1110.A1 — The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1120 — Individual Objectivity

Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 — Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130.A1 — Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 — Assurance engagements for functions over which the chief audit executive has responsibility should be overseen by a party outside the internal audit activity.

1130.C1 — Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 — If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

1200 — Proficiency and Due Professional Care

Engagements should be performed with proficiency and due professional care.

1210 — Proficiency

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

1210.A1 — The chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 — The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 — Internal auditors should have knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 - The chief audit executive should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 — Due Professional Care

Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 — The internal auditor should exercise due professional care by considering the:

- ▶ Extent of work needed to achieve the engagement’s objectives.
- ▶ Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- ▶ Adequacy and effectiveness of risk management, control, and governance processes.
- ▶ Probability of significant errors, irregularities, or noncompliance.
- ▶ Cost of assurance in relation to potential benefits.

1220.A2 - In exercising due professional care the internal auditor should consider the use of computer-assisted audit tools and other data analysis techniques.

1220.A3 — The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 — The internal auditor should exercise due professional care during a consulting engagement by considering the:

- ▶ Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- ▶ Relative complexity and extent of work needed to achieve the engagement’s objectives.
- ▶ Cost of the consulting engagement in relation to potential benefits.

1230 — Continuing Professional Development

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

1300 — Quality Assurance and Improvement Program

The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the *Standards* and the *Code of Ethics*.

1310 — Quality Program Assessments

The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

1311 — Internal Assessments

Internal assessments should include:

- ▶ Ongoing reviews of the performance of the internal audit activity; and
- ▶ Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the *Standards*.

1312 — External Assessments

External assessments, such as quality assurance reviews, should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

1320 — Reporting on the Quality Program

The chief audit executive should communicate the results of external assessments to the board.

1330 — Use of “Conducted in Accordance with the Standards”

Internal auditors are encouraged to report that their activities are “conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.” However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the *Standards*.

1340 — Disclosure of Noncompliance

Although the internal audit activity should achieve full compliance with the *Standards* and internal auditors with the *Code of Ethics*, there may be instances in which full compliance is not achieved. When noncompliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the board.

Performance Standards

2000 — Managing the Internal Audit Activity

The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

2010 — Planning

The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010.A1 — The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.

2010.C1 — The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Those engagements that have been accepted should be included in the plan.

2020 — Communication and Approval

The chief audit executive should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

2030 — Resource Management

The chief audit executive should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

2040 — Policies and Procedures

The chief audit executive should establish policies and procedures to guide the internal audit activity.

2050 — Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 — Reporting to the Board and Senior Management

The chief audit executive should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

2100 — Nature of Work

The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.

2110 — Risk Management

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

2110.A1 — The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.

2110.A2 — The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the

- ▶ Reliability and integrity of financial and operational information.
- ▶ Effectiveness and efficiency of operations.
- ▶ Safeguarding of assets.
- ▶ Compliance with laws, regulations, and contracts.

2110.C1 — During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2110.C2 — Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2120 — Control

The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2120.A1 — Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems. This should include:

- ▶ Reliability and integrity of financial and operational information.
- ▶ Effectiveness and efficiency of operations.
- ▶ Safeguarding of assets.
- ▶ Compliance with laws, regulations, and contracts.

2120.A2 — Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

2120.A3 — Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

2120.A4 — Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.

2120.C1 — During consulting engagements, internal auditors should address controls consistent with the engagement's objectives and be alert to the existence of any significant control weaknesses.

2120.C2 — Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2130 — Governance

The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- ▶ Promoting appropriate ethics and values within the organization.
- ▶ Ensuring effective organizational performance management and accountability.
- ▶ Effectively communicating risk and control information to appropriate areas of the organization.
- ▶ Effectively coordinating the activities of and communicating information among the board, external and internal auditors and management.

2130.A1 — The internal audit activity should evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs and activities.

2130.C1 — Consulting engagement objectives should be consistent with the overall values and goals of the organization.

2200 — Engagement Planning

Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

2201 — Planning Considerations

In planning the engagement, internal auditors should consider:

- ▶ The objectives of the activity being reviewed and the means by which the activity controls its performance.
- ▶ The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- ▶ The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model.
- ▶ The opportunities for making significant improvements to the activity’s risk management and control systems.

2201.A1 — When planning an engagement for parties outside the organization, internal auditors should establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 — Internal auditors should establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding should be documented.

2210 — Engagement Objectives

Objectives should be established for each engagement.

2210.A1 — Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment.

2210.A2 — The internal auditor should consider the probability of significant errors, irregularities, noncompliance, and other exposures when developing the engagement objectives.

2210.C1 — Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.

2220 — Engagement Scope

The established scope should be sufficient to satisfy the objectives of the engagement.

2220.A1 — The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 — If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 — In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the client to determine whether to continue with the engagement.

2230 — Engagement Resource Allocation

Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 — Engagement Work Program

Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

2240.A1 — Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 — Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 — Performing the Engagement

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

2310 — Identifying Information

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

2320 — Analysis and Evaluation

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

2330 — Recording Information

Internal auditors should record relevant information to support the conclusions and engagement results.

2330.A1 — The chief audit executive should control access to engagement records. The chief audit executive should 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 should develop retention requirements for engagement records. These retention requirements should be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

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

2340 — Engagement Supervision

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

2400 — Communicating Results

Internal auditors should communicate the engagement results.

2410 — Criteria for Communicating

Communications should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 — Final communication of engagement results should, where appropriate, contain the internal auditor’s overall opinion and or conclusions.

2410.A2 — Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 — When releasing engagement results to parties outside the organization, the communication should include limitations on distribution and use of the results.

2410.C1 — Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 — Quality of Communications

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

2421 — Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive should communicate corrected information to all parties 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 the:

- ▶ *Standard(s)* with which full compliance was not achieved,
- ▶ Reason(s) for noncompliance, and
- ▶ Impact of noncompliance on the engagement.

2440 — Disseminating Results

The chief audit executive should communicate results to the appropriate parties.

2440.A1 — The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 — If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organization, the chief audit executive should:

- ▶ Assess the potential risk to the organization.
- ▶ Consult with senior management and/or legal counsel as appropriate
- ▶ Control dissemination by restricting the use of the results.

2440.C1 — The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 — During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

2500 — Monitoring Progress

The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 — The chief audit executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 — The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 — Resolution of Management’s Acceptance of Risks

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.

Appendix B — Checklist for the Development of a Department- or Agency-specific Internal Audit Policy

Element Recommended for Inclusion in the Department or Agency Internal Audit Policy	Description
<ul style="list-style-type: none"> Mandate of the internal audit function 	<ul style="list-style-type: none"> Reference should be made to the relevant authority under which the internal audit function is established and operates, e.g. deputy head authority, the department or agency management control framework, or legislation. The broad purpose(s) for the function should be identified, including the types of internal audit assurance and consulting services that will be provided. The date on which the policy becomes effective should be included. A time frame within which the effectiveness of the policy will be evaluated should be included.
<ul style="list-style-type: none"> Application 	<ul style="list-style-type: none"> How the internal audit assurance and consulting service products will be used (e.g. planning and decision-making processes) should be explained.
<ul style="list-style-type: none"> Scope 	<ul style="list-style-type: none"> The programs, activities, systems, and organizations that are (and that are not) subject to internal audit should be clearly described. Assurance services should be described as primarily focused on all the important aspects of the department or agency's risk management strategy and practices, management control frameworks and practices, and information used for decision making and reporting. The authority of the internal audit group to access people, records, locations, etc. should be described.
<ul style="list-style-type: none"> Roles, responsibilities, and accountabilities 	<ul style="list-style-type: none"> The respective roles, responsibilities, accountabilities, and reporting relationships of the deputy head, the audit committee, managers, the head of internal audit and the internal audit group should be delineated.
<ul style="list-style-type: none"> Internal audit planning process 	<ul style="list-style-type: none"> The processes for planning multi-year and annual internal audit coverage should be described, including how priority will be given to the coverage of areas of higher materiality and risk and to fundamental departmental financial, administrative and control systems, and external performance reporting processes.

Element Recommended for Inclusion in the Department or Agency Internal Audit Policy	Description
<ul style="list-style-type: none"> • Internal audit reporting process 	<ul style="list-style-type: none"> • The processes for integrating management action plans into completed reports and for the subsequent monitoring and follow-up to these plans should be documented. • The reporting protocol should be described, i.e. the process to finalize reports in a timely manner and make them accessible to the public with minimal formality in both official languages. • The expectations for the internal auditing group's reporting its performance against its plans should be described.
<ul style="list-style-type: none"> • Standards 	<ul style="list-style-type: none"> • The standards (e.g. TBS, IIA, internal) that will be followed when conducting internal auditing engagements should be referenced. • For services not described in the <i>Policy on Internal Audit</i>, the standards that will be followed should be documented.

Appendix C — Glossary

Accountability

The obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties: one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged. (*Manual on Value-for-Money Audit*, Office of the Auditor General. Ottawa, December 2003.)

Add value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services. (*IIA International Standards for the Professional Practice of Internal Auditing*. Almonte Springs, Florida, December 2003.)

Adequacy

The quality or state of being adequate (i.e. sufficient for a specific requirement). (*Webster's New Collegiate Dictionary*. Thomas Allen and Son Ltd. Toronto, Ontario, 1977.)

Assurance services

An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Board

A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a non profit organization, or any other designated body of the organization, including the audit committee, to whom the chief audit executive may functionally report. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Chief Audit Executive

Top position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Compliance

Conformity and adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements. *(IIA International Standards for the Professional Practice of Internal Auditing)*

Consulting services

Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. *(IIA International Standards for the Professional Practice of Internal Auditing)*

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. *(IIA International Standards for the Professional Practice of Internal Auditing)*

Control environment

The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- ▶ Integrity and Ethical Values
- ▶ Management's philosophy and operating style
- ▶ Organizational structure
- ▶ Assignment of authority and responsibility
- ▶ Human resource policies and practices
- ▶ Competence of personnel.

(IIA International Standards for the Professional Practice of Internal Auditing)

Control processes

The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Economy

Thrifty and efficient use of material resources: frugality in expenditures. (*Webster's New Collegiate Dictionary*)

Effectiveness

Production of a decided, decisive or desired effect. (*Webster's New Collegiate Dictionary*)

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-Assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Engagement objectives

Broad statements developed by internal auditors that define intended engagement accomplishments. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Engagement work program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Evidence

Something that is intended to prove or to provide support for some belief. (Dictionary definition from Sawyer, *Internal Audit Techniques and Practices*, p. 139)

Finding

In auditing, it is used to describe the result of comparison between a criterion and an actual

situation, control or circumstance to which this criterion was applied. (*Manual on Value-for-Money Audit*)

Governance

The combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Independence

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Internal audit activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity 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. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Risk management

A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives. (*IIA International Standards for the Professional Practice of Internal Auditing*)

Appendix D — Annual Audit Plan Preparation Checklist

Desired Qualities	√
<ul style="list-style-type: none"> • The annual audit plan is prepared and available for approval prior to the start of the fiscal year in which it will be implemented. • An updated audit universe/multi-year plan is desirable to demonstrate, in conjunction with the annual plan, sufficient internal audit coverage of all significant auditable units. • The annual plan demonstrates that the planned work is consistent with government and department or agency goals and priorities and is based upon an assessment of risk. • The plan clearly describes how the basic requirement of the <i>Policy on Internal Audit</i> is to be met (i.e. sufficient and timely <i>assurance</i> services provided on risk management, management control frameworks, and information to support decision making and reporting). • The annual plan describes the planning process undertaken and the extent of consultation with senior management. • The annual plan identifies and schedules (an indication of the activity by quarter of the fiscal year may be sufficient) the engagements (or other services) to be undertaken by the internal audit group during the period of the plan. • The expected outcomes for assurance engagements are clearly identified and, where possible, the criteria to be employed in reaching conclusions or opinions should be referenced. • The annual plan notionally allocates resources to engagements and services. • The annual plan allocates resources to ensure that there is a systematic monitoring and effective implementation of management action plans arising from earlier audit and consulting activities. • The annual plan includes summaries of the resources required to implement the plan and demonstrates how shortfalls in resources may affect the implementation of the plan. • The annual plan identifies known work of the Office of the Auditor General and other central agencies with review mandates and places it in the context of the internal audit effort. • The annual plan, or covering document, references the audit committee's approval and describes the circumstances under which any significant changes to the plan may be made and the levels of approval required. • Senior management is fully aware of the approved audit plan. • The approved annual plan and any subsequent significant changes are submitted to the TBS, in accordance with the <i>Policy on Internal Audit</i>. 	

Appendix E — Template for an Auditable Unit Profile

Background: The auditable unit and its structure, its goals, its products or services, its environment, and its stakeholders.

Objectives: The auditable unit's expected accomplishments or contributions.

Activities: The principal tasks that the auditable unit performs or administers to accomplish its objectives.

Outputs: The products, goods, or services that are produced or directly controlled by the auditable unit and distributed inside and outside the department or agency.

Expected Results: The intended accomplishments or longer term outcomes of the auditable unit, expressed in quantitative or qualitative terms.

Resources: The authorized operating, capital, and salary dollars devoted to the auditable unit.

Systems: The major system(s) used by the auditable unit in support of its key inputs, processes, and outputs.

Previous audits or reviews: The summarized results, including follow-up action taken, of any previous internal audits or reviews conducted on the auditable unit.

Major Changes: The significant changes, made in prior years or anticipated, that have affected, or may affect the auditable unit.

Other Factors: The constraints or other considerations that may have an influence on the outputs of the auditable unit or on the way it operates.

Risk ranking: The results of the internal audit activity's assessment of the auditable unit's risks.

Appendix F — Template for Documenting Engagement Risk Assessment

Audit entity objectives: The key objectives of the audit entity, including those that may not be specifically stated but address the entity's obligations to account for results achieved and for the efficient and effective use of resources.

Key risks: The events or circumstances that could significantly prevent the audit entity from achieving each objective.

Effect: Each risk is evaluated as to whether the effect on achievement of objectives would be low, medium, or high should it occur.

Likelihood: Each risk is evaluated as to whether the likelihood that it will occur is low, medium, or high.

Risk exposure: The audit will normally focus on the risks with a combined effect and likelihood assessment in the medium or high exposure range.

Summary of key control considerations: From the engagement planning, the known control processes associated with the risks with a medium or high exposure are documented. A preliminary assessment or opinion may be provided as to whether or not the control appears to adequately mitigate the risk. This assessment will guide the extent of testing to be undertaken. (A reference to the documentation supporting the identification and assessment may be included.)

Inclusion in audit: An indication as to whether or not the risk should (and can) be addressed in the objectives and scope of the audit.

Engagement objectives and scope: Considering the audit entity objectives, the identified medium to high risks, and the availability of resources, the recommended audit objectives and scope.

Appendix G — Checklist for Reviewing Audit Objectives and Criteria Statements

5.1 Considerations re: Objectives Statements

1. Does the audit objective address one or more key generic audit areas, e.g. risk, control, information for decision making? If not, is an important area of coverage being neglected?
2. Does the objective clearly address at least one high-risk area or issue identified during engagement planning?
3. Are any high-risk areas or issues not addressed by an audit objective?
4. Does each audit objective clearly describe what is to be accomplished by the engagement, e.g. a conclusion or opinion with respect to assurance?

5.2 Considerations re: Audit Criteria Statements

1. Are the criteria relevant, i.e. appropriate to the audit entity, and are they from a clearly reliable source (e.g. an industry association or an approved management control framework) or are they generally accepted, i.e. would reasonable people say that they suit the subject matter to be audited?
2. Are the criteria consistent with those used for similar audits?
3. Are the criteria reliable? (Would they result in the same conclusions or opinions when used by different auditors in the same circumstances?)
4. Are the criteria neutral? (Are they free from any bias that could lead to misinterpretation?)
5. Are the criteria complete? (Does the set of criteria cover all significant aspects required to reach a clear opinion or conclusion on the audit objective?)
6. Will the criteria lead to findings and conclusions that directly address the related audit objective?
7. Are all the criteria related to an audit objective necessary? (Are there too many? Is there overlap or duplication?)
8. Can audit evidence be reasonably (e.g. practical, cost-effective) gathered in support of each criterion?

9. Has the auditee accepted the criteria?

5.3 Considerations re: Objectives Statements

1. Does the audit objective address one or more key generic audit areas, e.g. risk, control, information for decision making? If not, is an important area of coverage being neglected?
2. Does the objective clearly address at least one high-risk area or issue identified during engagement planning?
3. Are any high-risk areas or issues not addressed by an audit objective?
4. Does each audit objective clearly describe what is to be accomplished by the engagement, e.g. a conclusion or opinion with respect to assurance?

5.4 Considerations re: Audit Criteria Statements

1. Are the criteria relevant, i.e. appropriate to the audit entity, and are they from a clearly reliable source (e.g. an industry association or an approved management control framework) or are they generally accepted, i.e. would reasonable people say that they suit the subject matter to be audited?
2. Are the criteria consistent with those used for similar audits?
3. Are the criteria reliable? (Would they result in the same conclusions or opinions when used by different auditors in the same circumstances?)
4. Are the criteria neutral? (Are they free from any bias that could lead to misinterpretation?)
5. Are the criteria complete? (Does the set of criteria cover all significant aspects required to come to a clear opinion or conclusion on the audit objective?)
6. Will the criteria lead to findings and conclusions that directly address the related audit objective?
7. Are all the criteria related to an audit objective necessary? (Are there too many? Is there overlap or duplication?)
8. Can audit evidence be reasonably (e.g. practical, cost-effective) gathered in support of each criterion?
9. Has the auditee accepted the criteria?

Appendix H — Important Elements to Include in a Request for Proposals

What the bidder needs to know:

Purpose

The nature of the work to be provided should be specified, e.g. specialized or technical assistance to an engagement, performance of an engagement, project management of an engagement, and the specific requirements for the project should be detailed, e.g. the statement of work to be performed, including when and where the work is to be performed.

Budget

Where appropriate, a maximum budget may be specified and detailed in terms of fees, travel, goods and services tax and any other allowable costs. The advantage of including a maximum budget is that it provides a general indication of the level of effort expected and avoids wasted effort — both by bidders who do not feel that they can provide the service within the budget expectations and by bid assessors who don't have to consider proposals that may widely exceed expectations or who may have misunderstood the nature of the project. The disadvantage of including a maximum budget is that it can result in all bidders coming in with proposals very close to the maximum budget.

Time frame

The date by which, and the format in which, proposals must be received must be specified. The date by which the contract is to be awarded should be specified. The preferred or critical dates for commencement and completion of the work, including interim deliverables, such as draft reports or critical debriefings, should be specified.

Payment terms

Key payment terms should be specified, including the basis for the professional fees (e.g. fixed price, per diem), the timing of payments, and the protocol for the reimbursement of expenses (e.g. travel allowances within TBS guidelines).

Deliverables

The deliverables from the work to be completed should be specified, e.g. oral or written project status updates, debriefing presentations to the internal audit group or auditees, draft and written reports, working papers. The number and format for reports and other written documentation

should be specified, e.g. hard copy or electronic versions. If the bidder is responsible for translation, this should be mentioned. The internal audit group's ultimate ownership of deliverables (e.g. working papers, draft, and final reports) should be specified.

Assessment criteria

To support openness and transparency, the process for evaluating proposals should be explained as completely as possible, including the factors to be assessed and the scoring scheme. Normally, there will be both mandatory and rated requirements. Mandatory requirements are those that must be met as basic conditions of eligibility, e.g. a security clearance. Rated requirements, e.g. relevant experience, professional qualifications, and approach, are scored for the proposals that have met the mandatory requirements. The desired rated requirements are normally weighted and allocated a maximum number of points each, based on their relative importance to the final decision.

To avoid the possibility that the lowest cost proposal might not represent the best value for money, most evaluation processes employ a two-step approach to assessment and scoring of rated requirements. First, the rated requirements are scored for all bidders (meeting the mandatory requirements) without knowledge of the costs proposed. A pass mark is set that represents an acceptable level of quality. Second, the costs of those proposals judged to be of an acceptable quality are assessed. One approach is to allocate points on a declining scale, with the lowest cost proposal receiving the most points, and add those points to the rated requirements scores. Another approach is to develop a ratio of the cost proposed to the total rated requirement score to arrive at a best value result, i.e. the least cost per point.

What the bidder usually needs to provide in a proposal:

Experience and expertise

To enable the evaluators of proposals to judge relevance to the proposed work, the bidder should be requested to provide information on their experience and expertise as it relates to completed projects similar to the proposed work. Details, such as the names and dates of the projects completed, the names of the bidder's proposed resources with the role they undertook and the type and effort devoted to the work performed, as well as the names of references, are assets in evaluating proposals.

Project organization

The bidder should be requested to describe how he or she proposes to accomplish the work, e.g. key staff names, responsibilities, and their time to be devoted to the work (normally the department or agency will reserve the right to approve substitutions), as well as the reporting and quality assurance structure within the firm.

Project approach and plan

The bidder should be requested to provide, based on the work requirements, a description of his or her approach to the engagement and of each phase or significant component to be completed, including start and end dates, level of effort, and dates of deliverables, e.g. reports and meetings.

Budget

The bidder should provide a detailed budget, normally including cost per person per stage or component and any anticipated travel expenditures or other disbursements.

Appendix I — Sample of an Approach to Assessing Proposals

Criteria	Qualities	Points
Capabilities		
Qualifications	<ul style="list-style-type: none"> Proposed resources have the necessary professional qualifications and security clearances Proposed resources are assessed as being competent based on their previous work 	
Experience	<ul style="list-style-type: none"> Team members have sufficient relevant experience based on their previous work The bidder has completed other projects of similar scope and complexity 	
/ 30		
Management		
Scheduling & Work Plan	<ul style="list-style-type: none"> The work plan provides for meeting the stated objectives and providing the required deliverables within the required time frame The timing is realistic and appropriate Resources are assigned to tasks appropriate to their qualifications (e.g. partner, principal, team leader), and the number of days they will put into specific tasks is reasonable for the kind of work to be undertaken or the type of products to be prepared 	
Quality Assurance	<ul style="list-style-type: none"> Provision is made for appropriate, ongoing quality assurance 	
Reporting	<ul style="list-style-type: none"> The planned form and content of the deliverables is in accordance with the work requirements There is a solid understanding of the scope and nature of the reviews and briefings required in support of deliverables 	
/ 15		
Methodology		
Approach	<ul style="list-style-type: none"> The methods proposed to obtain information are likely to produce the required results The methods proposed are cost-effective and realistic given data availability or other constraints There are sufficient details on the analysis techniques to be employed 	

Criteria	Qualities	Points
Understanding of Issues and Environment	<ul style="list-style-type: none"> • The bidder demonstrates that her or she is aware of the audit entity history and of its current problems and challenges and reflects this awareness in his or her approach to the work • The bidder demonstrates knowledge of key stakeholders and is aware of their relationships and sensitivities 	/ 40
Quality of Proposal	<ul style="list-style-type: none"> • The proposal is clear, concise, and easily understood • The material is professionally produced and well organized • All of the elements of the proposal are coherent and consistent • The proposal is complete 	/ 15
TOTAL		/ 100

Appendix J — Template for an Audit Engagement Plan

Background: An overview of the audit entity, including its main goals, objectives, and desired results and their linkage to the department or agency; its size (e.g. number of employees, budget); its structure and delivery or service points (e.g. local or regional offices); recent or pending changes of significance; and significant issues.

Auditee concerns: Management’s issues or concerns raised during planning.

Risk assessment: A brief description of the risk assessment process used to determine the objectives and scope of the audit. If a risk assessment process was not used, the rationale for not doing so should be explained, e.g. special request audit.

Audit objectives: The statements developed by the internal auditor to define intended engagement accomplishments, e.g. a conclusion or opinion with respect to assurance.

Audit criteria: For each audit objective, the standards of performance and control against which the audit entity and its activities will be assessed.

Scope: A rationale for, and description of, the issues, programs, activities, transactions, or systems to be examined and a rationale for related activities excluded from examination. The period of time represented by the activities to be examined, e.g. transactions between April 1 and September 30.

Audit methodology: A general description of the audit work (nature and extent) that will be undertaken to gather and analyze sufficient, appropriate audit evidence. Reference may be made to the detailed audit program.

Time frames and reporting: The reporting process and target dates for completing work, e.g. oral debriefings, distribution and review of reports, audit committee tabling.

Budget and resource requirements: The anticipated staff and funding requirements to complete the work, e.g. travel, training, contracts.

Audit entity contact persons: The key audit entity contacts and their responsibilities with respect to the audit.

Audit responsibilities: To ensure team members have a clear understanding of expectations, the responsibilities of each internal audit group member.

Signature blocks: The required approval(s) by the senior member(s) of the internal audit group.

Appendix K — Template for Presenting an Audit Program

Engagement name:

1.0 Objective: The audit objective that is being addressed in this section of the program should be reprinted verbatim from the audit engagement plan.

Criterion	Sub-Criteria	Approach	Results	W/P Reference
1. The first criterion related to the objective would be reprinted verbatim in this column.	1.1, 1.2, 1.3, etc. If a further breakdown of a criterion is useful to guide the audit approach, each element would be identified, e.g. if transactions are to be processed efficiently and effectively, there may be different audit tests designed to assess efficiency and effectiveness.	1.1.1, 1.1.2, 1.1.3, etc. 1.2.1, 1.2.2, 1.2.3, etc. 1.3.1, 1.3.2, 1.3.3, etc. The approach, e.g. interview, testing of a sample of transactions, documentation review, that will be used to produce meaningful audit evidence with respect to the first (and each subsequent) criterion (or sub-criterion) would be described here in sufficient detail for any reasonably informed internal auditor to apply.	1.1.1, etc. 1.2.1, etc. 1.3.1, etc. The results of the approach could be summarized here, once known.	Reference to the evidence generated as a result of the approach would be included here, once obtained.
2.	2.1, 2.2, 2.3, etc.	2.1.1, 2.1.2, 2.1.3, etc.	2.1.1, etc.	
3.	3.1, 3.3, 3.3, etc.	3.1.1, 3.1.2, 3.1.3, etc.	3.1.1, etc.	

Appendix L — Checklist for Reviewing an Audit Program

Considerations	√
<ul style="list-style-type: none"> • Is it clear which audit objective and which related criteria each section of the audit program is intended to address? • Does the audit program cover all the audit objectives and all the criteria related to each audit objective? • Is the nature of evidence to be sought clear and appropriate for the expected audit accomplishments, e.g. to provide an assurance opinion or conclusion? • Is the evidence to be sought available? • Have the methods to be used to gather, analyze, and evaluate the evidence been clearly identified and are they appropriate, e.g. cost-effective, relevant, to generate sufficient reliable evidence? • Can the methods be completed in the allocated time frames, and is there sufficient flexibility built in to allow for unexpected opportunities or issues? • Does the internal audit group have the capability to gather, analyze, and evaluate the evidence sought? • Can the evidence to be gathered support coming to conclusions on other criteria, either related to the same objective or to another objective? 	

Appendix M — Engagement Planning Checklist

Audit Planning Step	Date Completed	W/P Ref.
The project is assigned to a lead internal auditor within the internal audit group.		
The auditee is notified in writing that the engagement has commenced.		
An initial meeting is held with the auditee to explain the initial audit objectives and scope as well as the process to be followed during the engagement.		
A sound understanding of the audit entity is developed, including its objectives and their linkage to those of the department or agency and any significant pending changes.		
An assessment of the audit entity's risks is conducted to focus further planning work into areas of potentially higher relative risk.		
A study or limited testing of controls in higher risk areas is completed.		
Engagement objectives are formulated based upon the results of the risk assessment and the study of limited testing of controls.		
Criteria suitable for drawing conclusions with respect to the objectives are established.		
An engagement plan, including time and resource requirement estimates, is approved at the appropriate level.		
The auditee understands the engagement plan.		
An audit program is developed to document the procedures for identifying, generating, analyzing, evaluating, and recording information during the engagement.		

Appendix N — Sample Audit Observation Worksheet

Audit name:
Audit objective:
Activity or function examined:
Audit criterion:
Audit observation:
Supporting evidence:
Cause:
Effect:
Potential recommendations:
Management comments:
Prepared by: Date: Approved by: Date:

Appendix O — Checklist for Reviewing Audit Observation Worksheets and Supporting Evidence

Key Considerations: Audit Observation Worksheets	√
Is the observation clear, i.e. does it provide sufficient information in a logical order to encourage positive management reaction?	
Does the observation clearly address a criterion (and its related objective) of the engagement?	
Is the cause of the problem or situation clearly defined?	
Is the impact or significance (effect) of the situation clear, and does it justify remedial action?	
If the recommendation were implemented, would the situation causing the observation be resolved?	
Is the recommendation within the auditee's capacity or capability to implement?	
Can the recommendation be implemented cost-effectively?	
Is the individual (or position) to whom the recommendation is addressed clear, and does the individual have the necessary authority to implement it?	
Key Considerations: Evidence	
Is the evidence supportive of the observation, and is it sufficient to lead to an opinion or conclusion on assurance?	
Are observation sheets cross-referenced appropriately to the supporting evidence, e.g. cause-effect analysis, impact analysis?	
Does the cross-referenced documentation demonstrate that the internal auditor has identified, analyzed, and evaluated sufficient information to achieve the engagement objectives, e.g. every program step has been completed or reasons for omission are clearly documented and appropriately approved?	
Is it evident that management has been orally debriefed on the observation and has had the opportunity to be involved in developing the recommendation?	

Appendix P — Checklist for Reviewing Working Papers

Key Considerations: Mechanics	W/P Reference	Review Notes
Does the file contain a table of contents?		
Are the working papers arranged in a logical fashion?		
Is the file indexed consistently and appropriately?		
Do all working papers include proper heading and reference numbers, dates prepared, preparer's initials, and an indication of supervisory review.		
Do the working papers contain any extraneous or unnecessary pages or documentation?		
Is the draft copy of the audit report cross-referenced to the applicable audit observation work sheets?		
Key Considerations: Content	W/P Reference	Review Notes
Does the file contain all information required as per any internal audit group standard working paper index?		
Does the file contain copies of the audit programs and evidence that they were executed completely?		
Are key management interviews documented?		
Are the subsequent analysis of the results of carrying out the audit programs and the development of observations and conclusions clearly documented?		
Are discussions with supervisory staff or management on the initial observations adequately documented?		
Is the disposition of all of the audit observations and the logic behind those dispositions clearly documented?		
Have all ongoing and final review notes been addressed?		

Appendix Q — Checklist for Conducting the Engagement

Audit Step	Date Completed
The auditee is provided with a copy of the approved plan for the engagement before the fieldwork is begun.	
An initial meeting is conducted at the commencement of fieldwork.	
The audit program is completed.	
The evidence gathered is consistent with the objectives and criteria and meets professional standards.	
Findings are developed and recorded on audit observation worksheets.	
Working papers are prepared and retained to support findings.	
The auditee is debriefed on observations as they develop and is provided an opportunity to comment on the observations and to provide input on recommendations.	

Appendix R – Checklist for Reviewing Audit Reports

The Substance of the Report	√
<p>The body of the report:</p> <ul style="list-style-type: none"> • Sufficient background information on the audit entity is provided to understand the context and significance of the audit report. • The audit objectives and the related criteria used to arrive at observations and conclusions are stated. • The audit scope states what was and was not included in the examination and specifies the period of time represented by the activities examined. • The timing of the audit, the methodology employed, and the professional standards followed are described. If appropriate, disclosure is made if any parts of the engagement were affected by non-compliance with professional standards. • Detailed audit observations relate to the stated objectives and criteria and logically support overall opinions and conclusions. • Each observation contains a statement of the condition (the situation supported by audit evidence), the criterion, the cause, the effect, and a recommendation. • Convincing or persuasive evidence is presented in support of each audit observation. • The impact of negative observations is quantified where possible but otherwise presented in a compelling argument, including an analysis of potential risks. • Recommendations flow logically from observations and causes, are specific and cost-effective, and are directed to specific positions or individuals with the authority to act upon them. • A conclusion, or a statement of inability to conclude, is provided for each audit objective and is supported by convincing evidence and analysis. • As appropriate, a statement of assurance is provided. • Positive observations and conclusions are provided where warranted. • Appendices included in the report add value in understanding the engagement results. <p>The executive summary:</p> <ul style="list-style-type: none"> • The executive summary provides a brief overview of the audit entity, reiterates the audit purpose, objective, and scope, references the audit criteria and methodology, and repeats the opinions or conclusions with respect to each objective and with respect to the overall engagement, if provided. • The statement of assurance is referenced or reiterated, as appropriate. 	

The Style of the Report	√
<ul style="list-style-type: none"> • The table of contents establishes the layout and structure of the report and correctly represents headings and page numbers in the body of the report. • Headings and text styles (e.g. italics, boldface, font size) are used effectively and consistently to draw the reader’s attention, e.g. topic or lead sentences, highlighted recommendations. • Charts and other exhibits are referenced in the report and appropriately labelled. • Paragraph and sentence structure support understanding, e.g. single topic or issue, concise, logical. • Initialisms and acronyms are explained or defined upon their first use. • Language usage and terminology is appropriate to the intended audience(s), e.g. the active voice is used and jargon and overly technical terminology are avoided or clearly explained. • A balanced tone is maintained. • Grammar and spelling are correct. • Appendices are presented in a uniform format and are referenced in the body of the report. • Overall, the report is clear and concise — the important findings, recommendations, and conclusions are evident. 	

Appendix S — Management Review Certificate

Engagement name: _____

Based on my review of the draft audit report, the working papers, and other relevant documentation, I hereby certify that

1. I regularly monitored progress throughout the engagement to assess the quality of work performed, to challenge emerging observations, and to ensure that the work carried out was appropriate and in accordance with professional standards;
2. the working papers have been reviewed, that they are logically organized and appropriately indexed, and that they adequately reflect the work performed;
3. observations and findings are well supported and material and that appropriate conclusions have been drawn;
4. the audit team possessed sufficient knowledge of the subject matter being audited and completed the engagement with due professional care;
5. the report is in compliance with TBS and internal policies and standards;
6. the auditee has been debriefed at the appropriate stages within the process;
7. the engagement has been performed in accordance with the audit objectives and the engagement plan (and any approved amendments); and
8. throughout the course of the engagement, I have directed matters to the attention of the head of the internal audit group that, in my opinion, are of special importance.

Date: _____

Title: _____

Name: _____ **Signature:** _____

Appendix T — Checklist for Quality Assurance Review

<ul style="list-style-type: none">• Engagement name: _____ The planning process undertaken is well documented in the working papers, e.g. initial audit objectives and scope specified as per annual plan, background program information researched, formal notification provided to auditee, interview notes recorded, risk assessments completed, and resource requirements and scheduling estimated and approved.• Final audit objectives and scope are clearly stated and supported by the planning undertaken, e.g. consistent with the key risks identified and the audit criteria are appropriate for the achievement of objectives.• Understanding of the plan for the engagement by the auditee is documented. (If necessary, approval by the audit committee is also recorded.)• The audit program is appropriate to achievement of the objectives and is approved by an appropriate senior level in the internal audit group.• The working papers demonstrate that the audit program has been completed as intended (or as modified with appropriate approval) and comprise information collected and analyses undertaken on all matters related to the audit objectives and the scope of the work.• Observations and conclusions are based on evidence that is contained in the working papers and that is appropriate (e.g. sufficient, reliable, and relevant).• Conclusions and recommendations are discussed at appropriate levels of auditee management before issuance of the draft report.• The draft report includes the audit objectives, scope, criteria, methodology, and results of the engagement, including findings, conclusions, and recommendations for improvement.• The findings documented in the draft report are cross-referenced to the supporting documentation in the working papers and provide relevant analysis and explanation of the exposure to risks for any significant problems.• Conclusions are consistent with the objectives defined in the plan for the engagement and with the detailed findings. An appropriate statement of assurance is provided.• The draft report is objective, balanced, clear, concise, constructive, and timely.• Management responses and action plans address the recommendations.• Significant issues raised in the report, particularly where there is disagreement, are discussed with appropriate senior officials.• There is evidence of appropriate supervisory review while the engagement is being conducted and of management review before closing the file, e.g. completion of a management review certificate.	√
--	---

Appendix U — Quality Assurance Review Observation Worksheet

Engagement name: _____

The following observations have been raised during the quality assurance review of the engagement. Please review the observations and provide an appropriate response, or explanation, in the space provided and return to the undersigned.

W/P Ref.	Observation	Response	Cleared/ Signed off

Quality Assurance Reviewer: _____ Date: _____

Appendix V — Auditee Satisfaction Survey

Engagement name: _____

The purpose of this survey is to obtain your assessment of the quality and effectiveness of the above noted internal audit that was recently performed in your area. In order to continue to improve our value added and our professionalism, we would appreciate it if you could take a few minutes to complete this survey.

Please place an “X” in the appropriate column (S/A = Strongly Agree, A = Agree, D = Disagree, S/D = Strongly Disagree, N/A = Not Applicable) to indicate your response to the following statements. Where your response indicates disagreement with a statement, it would be helpful if you could provide an explanation in the “comments” section below.

	S/A	A	D	S/D	N/A
(a) I was informed, or became aware, on a timely basis that an internal audit had been scheduled.					
(b) I was notified formally on a timely basis of the commencement of the audit, and the initial objectives and scope were clearly described.					
(c) The timing of the audit was appropriate.					
(d) My staff and I were given the opportunity to provide input (our concerns and perspectives) to the planning process, including identification of significant issues and risks, the final audit objectives and scope, and the criteria.					
(e) The approach to be taken by the internal audit team was clearly described.					
(f) Sufficient notification was provided for work required of my staff or me.					
(g) There was no unnecessary disruption to my operation’s daily activities, and our work environment was respected, e.g. safeguarding of documents, access to facilities.					
(h) The internal auditor(s) kept me informed throughout the process on a timely basis.					
(i) Communication of audit findings and results was timely, clear, and complete.					
(j) I was given the opportunity to provide input on the findings and conclusions and on the recommendations made to address them.					
(k) Audit findings were balanced and constructive and included both positive findings and opportunities for improvement.					

	S/A	A	D	S/D	N/A
(l) Conclusions reached and audit opinions were adequately supported by facts.					
(m) The audit was completed on a timely basis, commensurate with its complexity.					
(n) The draft audit report was issued on a timely basis following the completion of the fieldwork.					
(o) Recommendations were useful, realistic, and cost-effective.					
(p) I was given sufficient time and guidance to prepare a management response and action plan.					
(q) The stated objectives of the audit were met.					
(r) The internal auditor(s) demonstrated professionalism, competence, objectivity, knowledge of the subject matter, and a constructive and positive approach.					

Please use the space below to explain any ratings, to provide additional comments, or to offer suggestions to improve future internal audits.

Comments: