

AUDIT PROCESS

AUDIT OBSERVATIONS

Overview

The auditor should complete an Audit Observation Form (AO) whenever the auditor identifies a possible (a) opportunity for operational improvement, (b) discrepancy, (c) error, (d) irregularity, (e) weakness or (f) deviation from internal control standards, regulations, or policies. Prior audit reports and linked AOs should be reviewed and used to the extent possible to avoid re-creating an AO already developed.

At the time the auditor realizes they have an audit concern, they should begin to complete the AO and discuss the observation with the auditee. This discussion should be documented in the applicable fields of the AO. The AO should stand-alone and should document the auditor's analysis (criteria, condition, cause, consequence, and corrective action) related to the finding; this information should not be located elsewhere in the workpapers. The workpaper where the work was performed which resulted in the observation and supporting workpaper references should be DocLinked to the AO in the space provided. Documenting the analysis assists the auditor in preparing to discuss the observation with the auditee.

The AO should document the results of the problem analysis/resolution process. The form is not a step-by-step recipe for doing the work itself, because problem analysis/resolution is not a linear process. Simply completing the form is not a substitute for critical analysis of the situation. The auditor should answer such questions as the following:

- What is the problem that exists?
- How extensive is the problem?
- What is the risk associated with the problem, or lack of controls?
- Do we have our facts correct? Does the auditee agree that the problem exists?
- Are there other controls to compensate for the problem?
- Are there practical solutions to the problem?
- Has management agreed with our recommended corrective action or formulated their own corrective action?

Since the AOs contain the auditor's professional analysis of audit concerns, they are among the most important workpapers created.

Aspects of the Audit Observation Form

Finding - Description of Observation [Condition]

This section of the AO should contain a clear and concise statement of the condition. This sentence will be the only explanation of the problem in the final report. The statement should be concise but provide enough detail to support the reader's understanding of the problem.

Per the IIA Standards, "Condition: The factual evidence that the internal auditor found in the course of the examination (what does exist)."

Discussion and Background - Analysis of the Audit Finding [Criteria and Cause]

The auditor should document the analysis of the problem in this section. References to applicable standards and/or good business practice should be included. If possible, the auditor should identify probable root causes (as opposed to the symptoms) for the issue. This section should not contain information that is redundant to that found on the workpaper.

Per IIA Standards, "Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (what should exist)."

Per IIA Standards, "Cause: The reason for the difference between the expected and actual conditions (why the difference exists)."

Recommendation [Effect and Corrective Action]

The auditor should include a statement of risk which is sufficient to answer the "so what?" question so that the reason for reporting the observation is clear. This section should also include the corrective action to be presented to the auditee.

This section must be updated to reflect the wording in the External Draft.

For reporting purposes, AOs are often combined for the purposes of clarity or conciseness. When such a combination is appropriate, this should be documented in this field. The auditor should indicate on both the individual observations and the summary/combined observation that concerns were combined for reporting purposes (e.g., different concerns with the same risk). For those documents combined, only the observation used in the report will have a disposition of audit report. Supporting AOs that were combined should have a disposition of "combined for report." Only the recommendation section of the combined form will be updated to reflect the final report language. DocLink's should be created on both the individual AOs and the combined AO for easier review and subsequent follow-up.

Per IIA Standards "Effect: The risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (the impact of the difference)."

Comments

The auditor should document their discussions of the finding and recommendation with the auditee and other comments as appropriate.

Disposition

The following dispositions are available:

- Mitigating controls - other controls are in place which reduce the risk below the cost of the control.
- Not significant - immaterial error(s) identified.
- Verbal discussion - when the observation is deemed not material for audit report purposes.
- Combined for report - discussed above.
- Not a concern - determined issue was unsubstantiated.
- Future audit concern - outside of the current audit scope.
- Audit report - when the observation is deemed significant and warrants auditor follow-up.
- Observation - pertinent statement of fact that adds context to our report, but for which no recommendation is issued.
- Risk Accepted - management assumes the risk.

The disposition section of the AO form should be updated if the disposition of any AO changes during the report review process.

An AO with an "audit report" disposition should also be DocLinked to the Internal and External Draft reports to provide referenced copies of the report and to ensure AO dispositions accurately reflect the contents of the final report.

An AO may result in more than one recommendation and therefore could be split to provide for two or more distinct implementation dates for follow-up purposes.

Entering an "audit report" disposition causes the following additional fields to appear on the AO:

- **Management Response:** If a written response has been received for AOs that are coded as Audit Report, the response should be scanned and attached to this field.
- **Area Responsible:** This should be the title of the position for which the unit implementing this recommendation ultimately reports (e.g. Chancellor, Provost).
- **Expected Completion:** **This is a very important date.** This is the date that the auditee said they would implement the AO. The first time this field is entered it should be the date agreed to in the audit report. *This date can change if they request a new Expected Completion (EC) date. When we agree to a new EC date this field changes to the new EC date. The auditor must record this new, extended EC date in this field.*
- **Original Expected Implementation Date:** **This is a very important date.** This is the date that the auditee said they would implement the AO. The first time this field is entered it should be the date agreed to in the audit report. This date should **never** be changed from the date listed in the audit report.
- **Auditor Responsible:** This is the field that notes which auditor is responsible for follow-up.
- **Follow-up Comments:** It is a field that can be used by the auditor to record general comments but **should not** be used to document testing. Testing should be placed in the appropriate 1st, 2nd, 3rd or 4th Follow-up Workpapers field.
- **Date Report Published:** Date the report was issued.
- **1st Actual Follow-up Date:** This is the actual date that the auditor did their first follow-up. **2nd Actual Follow-up Date; 3rd Actual Follow-up Date; 4th Actual Follow-up Date** - similar definition applies. **Do not** fill in this date until follow-up is done.
- **Follow-up Workpapers:** This is the field where the auditor enters their recommendation as to the status (Implemented, In-Progress, Withdrawn, Not Implemented, or New Expected Completion Date). The auditor must also DocLink or type any information relevant to the follow-up recommendation and the work that was performed. This, as noted above, is also the field where the auditor enters the new EC date if a new EC date is given. All follow-up, including changes in the expected completion date, are to be submitted to audit management for approval.
- **Report Item:** This field will be completed by audit management.
- **Set Actual Completion Date:** This field will also be completed audit management.
- **Request review by:** When the auditor has completed any follow-up **1st, 2nd, 3rd or 4th**, select the member of audit management's name in this field to put the work in their review queue. Follow-up must be approved by a member of audit management. Audit Management will not know the auditor has follow-up that needs reviewed and approved unless the auditor sends it to their review queue.