

THE AUDIT PROCESS: HOW WE WORK WITH YOU

The most successful audits are those involving sound planning and those in which the auditee and the auditors have a constructive working environment.

Our objective here is to have your continued support and involvement at every stage, so that you, our auditee, understand what we are doing and why. It is also designed to provide a resource for sharing the tools and techniques for each of the distinct phases of the audit process. This booklet is provided mainly for auditees who are unfamiliar with the work of the Office of the Auditor General (OAG) and to remind others of the value of having auditors to assist where necessary.

Although every audit is unique, the audit process is similar for most engagement, and normally consists of three stages: planning (sometimes called survey or preliminary review), executing and reporting.

STAGE 1: Planning

During the planning portion of the audit, the auditor notifies the auditee of the audit, discusses the scope and objectives of the examination with management, gathers information on important processes, evaluates existing controls, and plans the remaining audit steps.

1. Engagement Letter

The auditee is informed of the audit through an engagement letter from the Auditor General. This letter communicates the scope and objectives of the audit, the auditors assigned to undertake the audit, what materials/documents should be made available and other relevant information.

2. Entrance Interview/Opening Conference

During this meeting, the auditee describes or is asked about the department or system to be reviewed, available resources and other relevant information. If required, the auditor meets with other senior officers directly responsible for the department under review and any staff members he/she wishes to include. It is important that the auditee identify issues or areas of special concern that should be addressed.

3. Survey

In this phase the auditor gather relevant information about the department in order to obtain a general overview of operations. He/She talks with key personnel and reviews reports, files, and other sources of information.

4. Internal Control Review

The auditor will review the department's internal control structure, a process which is usually time-consuming. In doing this, the auditor uses a variety of tools and techniques to gather and analyze information about the operation. The review of internal controls helps the auditor determine the areas of highest risk and design tests to be performed in the fieldwork section.

5. Audit Program

Preparation of the audit program concludes the preliminary phase. This program outlines the fieldwork necessary to achieve the audit objectives.

STAGE 2: Executing

Conducting the fieldwork is the main activity under the executing stage and it concentrates on transaction testing and informal communications. It is during this phase that we, the auditors determine whether the controls identified during the preliminary review are operating properly and in the manner described by you the auditee. This stage concludes with a list of significant findings from which we will prepare a draft of the audit report.

1. Transaction Testing

After completing the survey the auditor performs the procedures set out in the audit program. These procedures usually test the major internal controls and the accuracy of transactions.

2. Advice and Informal Communications

As the fieldwork progresses, the auditor discusses any significant findings with the auditee. Hopefully, the auditee can offer insights and work with the auditor to determine the best method of resolving any queries or findings. Usually these communications are oral. However, when dealing with more complex situations written communications (memos, interim reports and emails) are used.

There are times when we may have an informal meeting with management or present an interim report if we think our findings must be address immediately.

3. Audit Summary

Upon completion of the field work the auditors summarize the audit findings, conclusions, and recommendations necessary for the draft audit report.

4. Working Papers

Working Papers are a vital tool of the audit profession. They are the support of the audit opinion and they connect all the dots, that is, the auditee records to what auditors found. They are comprehensive and serve many functions such as reference materials and providing a history of the audit relationship between the auditee and the OAG.

STAGE 3: Reporting

Our principal product is the final report in which we express our opinions based on proof collected during the executing process. Additionally, the audit findings are presented and recommendations discussed for improvements. In order to facilitate communication and ensure that the recommendations presented in the final report are practical we discuss this with the auditee prior to issuing our draft.

1. Exit Conference

When audit management has approved the draft report, we meet with the department's management team to discuss findings and recommendations.

2. Draft Report

The auditor then prepares a formal draft, taking into account any revisions resulting from the exit conference and other discussions. After the changes have been reviewed by audit management, the draft is issued to the auditee for management response.

3. Management Response

The auditee has the opportunity to respond to the audit findings prior to issuance of the final report which can be included or attached to our final report.

4. Auditee Comments

Finally, as part of the OAG's evaluation program, we ask auditees to comment on our performance. This feedback has proven to be very beneficial to us, and we have made changes in our procedures as a result of auditees' suggestions.

5. Audit Follow-up

At our next audit of a particular department we will perform a follow-up review to verify the resolution of the previous report findings.

A - Z: Common Terminologies Used BY OAG

A

Accountability	is an obligation to answer for responsibility that has been conferred. Accountability 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.
Accreditation	a formal process by which a recognized body, usually a non-governmental institution, assesses and recognizes that a healthcare organization meets applicable, pre-determined standards.
Adequate Control	is present if management has planned and organized in a manner which provides reasonable assurance that the department's objectives and goals will be achieved efficiently and economically.
Analytical Auditing Procedures	are performed by studying and comparing relationships among both financial and non-financial information.
Annual Audit Report	this is the report of the Auditor General which is submitted to Parliament each year. This depicts the audit findings after her

allocated 9 months of examination and audit.

Audit Act	is the legislation that governs our duties and responsibilities.
Audit Evidence	refers to the necessary information that an auditor gathers in order to form a credible opinion on the assertions by the client's management.
Audit Objectives	are broad statements developed by auditors and define intended audit accomplishments.
Audit Opinion	is that part of the auditor's report to the members of an entity in which the auditor expresses an opinion on the extent to which the financial statements are materially misstated.
Audit Plan	serves as guidance on how goals and objectives will be accomplished, and as a medium for monitoring progress in plan implementation.
Audit Procedures	are the tasks the auditor undertakes for collecting, analyzing, interpreting, and documenting information during an audit.
Audit Program	refers to instructions and procedures designed to carry out the audit plan.
Audit Report	is a signed, written document which presents the purpose, scope, and results of the audit.
Audit Risk	the probability that an audit will give an inappropriate opinion on the financial statement.
Audit Scope	refers to the activities covered by an audit and include time period audited, nature and extent of procedures performed etc.
Auditee	includes any individual, unit, or activity of the organization that is audited.
Audit Trail	is a chronological sequence of records, each of which contains evidence directly pertaining to and resulting from the execution of a business process of system function.
Authorization	implies that the authorizing authority has verified and validated that the activity or transaction conforms to established policies and procedures.

B

Backup	serves as a substitute or support.
Balance	the difference between the debits and credits.
Budgets	a plan for the coordination of resources and expenditures.

C

Cause	is the reason for the difference between the expected and actual conditions.
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Certification	a process by which an authorized body, either a governmental or non-governmental organization, evaluates and recognizes either an individual or an organization as meeting pre-determined requirements or criteria.
Code of Ethics	INTOSAI sets forth standards of conduct for auditors to effectively discharge their responsibilities. This code calls for high standards of honesty, objectivity, diligence and loyalty.
Completeness	assertions about completeness deal with whether all transactions and accounts that should be in the financial statements are included.
Compliance Auditing	is performing procedures to test compliance with rules, laws and regulations.
Compliance Tests	activities performed by auditors to establish whether the internal control procedures that initially appeared to be satisfactory do indeed serve their purpose and function effectively.
Computation	this is an evidence gathering activity that may be applied in all of the audit stages. Auditors often perform mathematical calculations and reconciliations as well as the counting of items.
Conclusions	are the auditor's evaluations of the effect of the findings on the activities reviewed.
Condition	is the factual evidence which the auditor found in the course of the examination.
Confidentiality	auditors are often required by law and standards to keep confidential anything pertaining to auditees
Confirmation	is an evidence gathering activity performed by the auditor, it refers to the process of requesting and receiving information in writing and from a third party, attesting to the validity of an item such as an asset.
Conflicts of Interest	refers to any relationship which is or appears to be not in the best interest of the organization.
Consistency	to achieve comparability of information over time, the same accounting methods must be followed.
Control	is any action taken by management to enhance the likelihood that established objectives and goals will be achieved.
Control Environment	comprises the overall attitude, awareness and actions of management regarding internal controls.
Control Procedures	the policies and procedures that management establishes to protect against fraud, loss, irregularity and error.

Control Risk is the risk that a material misstatement in the unaudited information will not be detected and corrected by management's internal control procedures on a timely basis.

Corrective Controls are designed to minimize the impact of any perceived threat which management may identify.

Criteria are the standards, measures, or expectations used in making an evaluation and/or verification.

Cut-off tests this evidence gathering activity allows the auditor to gather evidence transactions that are recorded in the period to which they refer.

D

Decision-Making a decision making activity in auditing correspond to the activity of choice in human information processing theory.

Delegation an auditor only delegates work/authority to persons with the appropriate experience and competence.

Detective Controls are those which detect errors once they have occurred i.e. "after" the fact controls.

Directive Controls are actions taken to cause or encourage a desirable event to occur.

Due Professional Care calls for the application of the care and skill expected of a reasonably prudent and competent auditor in the same or similar circumstances.

E

Effect is the risk or exposure the auditee organization and/or others encounter because the condition is not the same as the criteria.

Effectiveness the degree to which program or system objectives are being achieved.

Efficiency the relationship of outputs (services produced) to inputs (resources used to produce the services).

Entrance Interview asking the auditee about the department or system to be reviewed.

Examine as an audit procedure, to examine something is to look at it critically.

Exit Conference this involves meeting with management to discuss findings and recommendations.

External Auditors refers to those audit professionals who perform independent annual audits of an organization's financial statements and systems.

F-H

Feedback Questionnaire	is used to gather information about the auditor's and the process.
Fieldwork	the performance of audit procedures outside the OAG's office. Much field work, but not all, is done in the client's offices after the balance sheet date.
Final Report	our principal product is the final report in which we express our opinions based on proof collected during the executing process.
Financial Audit	address the accounting for, and reporting of, financial transactions, including commitments, authorizations and receipt and disbursement of funds.
Findings	are pertinent statements of facts. Audit findings emerge by a process of comparing what should be with what is.
Flowchart	a graphical representation of the sequence of activities, steps, and decision points that occur in a particular process.
Follow up	is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings.
Fraud	encompasses an array of irregularities and illegal acts characterized by intentional deception.
GAAP	"Generally Accepted Accounting Principles"
GAAS	"Generally Accepted Auditing Standards" - the ten auditing standards adopted by the membership of the AICPA. Auditing standards differ from audit procedures in that "procedures" relate to acts to be performed, whereas "standards" deal with measures of the quality of the performance of those acts and objectives of the procedures.
General Ledger	a record to which monetary transactions are posted (in the form of debits and credits) from a journal. It is the final record from which financial statements are prepared.
Goals	are specific objectives of specific systems and may be otherwise referred to as operating or program objectives or goals, operating standards, performance levels, targets or expected results.
Guidelines	are suitable means of meeting the general and specific auditing standards e.g.. GAAP
Honesty	is the human quality of communicating and acting truthfully related to truth as a value.
I	
Immaterial	means of no importance. Something that will not change the final outcome by much.

Implement	carry out or fulfill by taking action.
Independence	allows auditors to carry out their work freely and objectively. This concept requires that auditors be independent of the activities they audit.
Information	is data the auditor obtains during an audit to provide a sound basis for audit findings and recommendations.
Information Technology Audits	address the internal control environment of automated information processing systems and how people use those systems.
Inherent Risks	is the risk of a material misstatement in the unaudited information assuming the absence of internal control procedures.
Inquiry	this is obtaining written or oral information from the client and when the auditor obtains evidence through inquiry, it is normally necessary to obtain further corroborating evidence through other procedures.
Inspection	is an evidence gathering activity that refers to the inspection of documentary evidence.
Integrity	means adherence to a set of moral or ethical principles.
Internal Auditing	is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.
Internal Auditors	are employees of the client responsible for providing analyses, evaluations, assurances, recommendations and other information to the entity's management.
Internal Control Audits	determine whether the department is conducting its financial and business processes under an adequate system of internal control.
Internal Controls	a process effected by an entity's board of directors, management, and other personnel that is designed to provide reasonable assurance regarding the achievement of objectives in accomplishments of goals and objectives, compliance with laws, reliability of financial reporting, effectiveness and efficiency of operation and safeguarding of assets.
Irregularity	refers to the intentional misstatements or omission of significant information in accounting records, financial statements, other reports, documents or records.
J-N	
Journals	books of original entry in a double entry system.
Judgment (professional)	the ability of a professional to make appropriate choices based on established criteria, recognizing facts and circumstances surrounding the specific choices to be made.

Knowledge of Organization.	is understanding and getting a full picture or the operations of an organization.
Laws	regulates the behavior of members in a society. It affects almost everything we do.
Likelihood	a qualitative description of a probability or frequency.
Log Books	is keeping records of functions, transactions, for example a vehicle log book is kept by some departments to monitor the use of government vehicles.
Management Letter	the auditor's written communication to management to point out significant weaknesses in internal control and possibilities for operational improvements.
Management Response	refers to the oral and written responses that are made by management of the audited entity on the audit findings that were highlighted in the management letter or report.
Materiality	information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
Material Misstatements	significant information that will impact decisions, so there is need to report it.
Monitoring	encompasses supervising, observing, and testing activities and appropriately reporting to responsible individuals.
Non-compliance	not abiding by or fulfilling laws, standards, rules or regulations.
O	
Objectives	are the broadest statements of what the organization chooses to accomplish.
Objectivity	is an independent mental attitude which requires auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made.
Observations	watch and test a client or a system action.
Operational Audits	examine the use of unit resources to evaluate whether those resources are being used in the most efficient and effective ways to fulfill the unit's mission and objectives. An operational audit can include elements of a compliance audit, a financial audit, and an IT audit.
Operations	refers to the recurring activities of an organization directed toward producing a product or rendering a service.

P-Q

Physical Examination	this is the evidence of completeness is required, auditors often visit departments to see that assets exist.
Planning	an act of formulating a program for a definite course of action.
Preventive Controls	are designed to stop the occurrence of errors or irregularities in the system.
Proficiency	means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance.
Purpose Statements	in audit reports describe the audit objectives and may, where necessary, inform the reader why the audit was conducted and what it was expected to achieve.
Quality Assurance	is a program by which the Auditor General evaluates the operations of the Audit Office.
Qualified Opinion Reports	is issued when the auditor encountered one of two types of situation (a single deviation from GAAP or scope of limitation) which do not comply with GAAP, however the rest of the financial statements are fairly presented.
Queries	these are anomalies observed during the execution phase for which further explanation/clarification is needed.
R	
Recommendations	are actions the auditor believes necessary to correct existing conditions to improve operations.
Reconciliations	the process of making sure your bank statement, checkbook, and books (ledger, journal, etc) all agree. Usually performed at the end of each month.
Reperformance	is the repeating by an auditor of a computation made by the client to check its accuracy e.g. pension and gratuities.
Reports	serve as carrier of findings, message or to give a formal or official account or statement.
Resource	a source of supply or support.
Revenues	a government department or ministry concerned with the collection of money.
Review	to examine again.
Risk	is the probability that an event or action may adversely affect the organization or activity under audit.

Risk Assessment	is the identification and analysis of relevant risks to the achievement of an organization's objectives, for the purpose of determining how those risks should be managed.
Risk Based Auditing	an approach that focuses upon how an organization responds to the risks it faces in achieving its goals and objectives.
Risk Factors	are the criteria used to identify the relative significance of, and likelihood that, conditions and/or events may occur that could adversely affect the organization.
S	
Sampling (audit)	the application of an audit procedures to less than 100% of items within an account or class of transactions for the purpose of evaluating some characteristics of the balance or class.
Scope (audit)	this is the boundaries in which the audit is carried out and it is also the nature and extent of work that the auditor must do in order to achieve the objective.
Segregation of Duties	key duties and responsibilities in authorizing, processing, recording and reviewing transactions and events should be separated among individuals.
Significant	is the level of importance or magnitude assigned to an item, event, information, or problem by the auditor.
Significant Audit Findings	are those conditions which, in the judgment of the Auditor General, could adversely affect the organization. Such findings may include conditions dealing with irregularities, errors and control weaknesses.
Standards	applies to any definite rule, principle or measure established by authority.
Substantive Tests	tests that are carried out to gather audit evidence that the accounts do not contain material misstatements.
Summary (audit)	this is where auditors summarize key findings with the appropriate citations, as well as any recommendations or suggestions for improvements.
Supervision	is a continuing process where management ensures that procedures and instructions and being followed.
Supreme Audit Institution	(SAI) commonly referred to as the Auditor General's office, perform key functions in terms of checking governmental accountability over public funds.
Survey	is a process for gathering information, without detailed verification, on the activity being examined.

System is an arrangement, a set, or a collection of concepts, parts, activities and/or people that are connected or interrelated to achieve objectives and goals.

System Based Audit an audit in which the nature and depth of the testing depends on the auditor's assessment of the internal control system. This assessment forms the main part of the audit.

T

Tasks implies work imposed by a person in authority or an employer.

Teamwork work done by several persons with each doing a part but all subordinating personal prominence to the efficiency of the whole.

Transaction is an act, process or a communicative action or activity involving two parties or things that reciprocally affect or influence each other.

Transparency requires that decisions and actions are taken openly and that sufficient information is available so that other agencies and the general public can assess whether the relevant procedures are followed.

Trend Analysis an analysis of the change in something overtime. Analytical procedures, which compare financial statement ratios of different yrs are an e.g. of trend analysis. OAG conduct this on the public accounts of government.

U-Z

Uncertainty a condition where the outcome can only be estimated due to incomplete or imperfect knowledge of the area/subject in question.

Understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations and to be able to carry out research necessary to arrive at reasonable solutions.

Unqualified Opinion Reports this type of report is issued by an auditor when the financial statements presented are free of material misstatements and are in accordance with GAAP, which in other words means that the organization's financial condition, position and operations are fairly presented in the financial statements.

Validity information reported accurately reflects actual events and transactions.

Value for Money Audit is a systematic, purposeful, organized and objective examination of government activities. It provides Parliament with an assessment on the performance of these activities, with information, observations and recommendations designed to promote answerable, honest and productive government; and encourages accountability and best practices.

Verify to confirm or establish the authenticity of data or existence of assets by examination or other means.

Vouching	this is another procedure for proving or verifying details of transactions from one document with another or with the source.
Walk-Through Test	a process of following some typical transactions through a system and its control to see how procedures fit together in practice and to provide early confirmation that the auditor's understanding of the system is correct.
Working Papers	record the information obtained, the analyses made, and conclusions reached during an audit. Audit working papers support the bases for the findings and recommendations to be reported.

Any comments on the contents of this booklet and/or suggestions for improvement should be directed to Ms Marsha V. E. Meade, Deputy Auditor General. She can be contacted by letter, telephone, facsimile or email at the address listed at the top of this booklet.

Designed by Office of the Auditor General